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Territory Senior Partner
PwC Interaméricas

Central America, Panama and the Dominican Republic is an attractive region for investment, where its countries have for years excelled in various sectors such as financial services, information and communications technology, manufacturing and logistics, tourism, among others.

In recent years, the promotion of foreign investment has been one of the main objectives for the governments of Central America, Panama and the Dominican Republic. One of the policies that has seemed to be effective is tax benefits, which many countries in the region have extended in order to attract investment, making us a promising destination for foreign investment to be considered post-COVID-19.

While the U.S. has been the main source of foreign direct investment inflows to the region, other countries are increasing their attention to our region, investing in infrastructure projects that generate new jobs and create optimal conditions to accelerate an economic recovery after the global health crisis.

Our countries are becoming aware and unlocking their potential for sustainable growth and present opportunities for investment in the environment by taking responsibility for better and more efficient use and management of the region’s resources.

This guide is designed to provide the necessary information and direction on regulatory compliance issues and considerations for opening a new business, establishing a branch of a multinational company, or any other type of investment in the region.

We hope this Doing Business gives you the stimulus to build a successful business in this region filled with opportunities. This publication is for general guidance only and should not be construed as professional advice. Should you require further information, our advisors will be happy to assist you on an individual basis.
Thank you very much for thinking of PwC Interaméricas and allowing us to guide your journey through Central America and the Dominican Republic.

It should be noted that this document was prepared as a general guide and that its content is subject to constant changes given the legal and economic environment of the different countries, so due to the complexity of some specific issues, we recommend you rely on the assistance and accompaniment of professionals from our team specialized in tax, legal and regulatory matters, who will gladly support you taking into consideration the specific circumstances and situations of the matter under study.
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.

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 María 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.
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.

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.

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 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 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.
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.

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.

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.

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.
Banking system
Central bank.
Commercial banks.
List of banks.

Labor and social security
Labor supply.
Labor law requirements.
Social security.

Accounting and audit requirements and practices
Accounting.
Statutory audit requirements.
Books and records.
Accounting profession.
Auditing standards.

Tax System
Other tax regime.
Corporate deduction.
Tax incentives.
Transfer pricing ruling.
Corporate tax compliance.
Individual taxation summary.
Individual deduction.
Individual tax compliance.

Sustainable Development Goals in Central America and the Dominican Republic
¿Por qué invertir en Panamá?

Why invest in Panamá?
Panama is open to foreign investment and does not discriminate in terms of foreign investors. The 2009-2014 Strategic Plan recognized its importance and focused on efforts to attract foreign investment in areas such as logistics service providers, developers, fruit exporters and hotels.

Panama has not issued paper currency; the U.S. dollar is used as the circulating medium. There is no exchange control required, the Balboa has a par value equivalent in U.S. dollars.

There are no registration requirements for capital and there is no tax on the transfer of funds into the country. There are no controls on the repatriation of capital or retained earnings. The government attitude towards foreign investment is encouraging foreign investment and labor to position Panama as the main destination in Latin America for foreign investors. However, the same commercial 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 trade rules, the granting of migration, labor and investment tax incentives and the creation of the Proinvex office are some of the main ways in which Panama has encouraged foreign investment.

PROINVEX is a “one-stop shop” where all investors interested in investing in Panama can obtain all the information needed to make a successful investment in one office. Investors can also obtain updated information on special tax regimes, such as the Panama Pacifico Special Economic Zone (APP), Multinational Enterprise Headquarters (SEM), Multinational Manufacturing Enterprise Headquarters (EMMA), the City of Knowledge, Colon Free Zone (ZLC), the Law of Legal Stability of Investments and other free trade zones.
The organization of commercial companies and commercial activities is governed mainly by special laws created for these purposes, in addition to the Commercial Code on issues that have not been regulated.

Price controls mainly in food, medicines and construction materials are given by the interaction with the market. In Panama we do not have a price control authority. We have a government authority in charge of surveillance against bad commercial practices.

To date we do not have any restrictions on mergers and acquisitions, nor any special restrictions on foreign investment in this regard. Our legislation addresses both the merger with foreign entities and re-domiciliation, while spin-offs are currently permitted under Panamanian law.

One of the incentives foreseen in the development of the primary sector is the protection of foreign competition through the establishment of tariffs and import quotas for some sensitive products. Tariffs are imposed on foreign products entering the country, except for those exempted by law or special contracts. Tariffs are taxes on value or on the basis of quantity, weight, size or volume. Rates vary from least to most protectionist, substantial through to clear (0% protectionist below 33%). Import tariffs on many items are significant, therefore it is advisable to inquire about tariff rates prior to importation.

Panama has taken into account the advantages and disadvantages of applying for admission to the Central American Common Market. No immediate application for admission is expected as any actual integration of Panama.

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

**Free trade and other agreements**

A Free Trade Agreement (FTA) is a regional or bilateral trade agreement to expand the market for goods and services between countries. Basically, it 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.

An FTA does not necessarily imply an economic, social and regional policy, such as the European Union, the Andean Community, Mercosur and the South American Community of Nations.

Despite this, they were created to promote trade, they also include provisions for tax and budgetary policy and the movement of people and common political bodies, elements absent in an FTA.

Panama has free trade agreements with Honduras, Costa Rica, El Salvador, Israel, Singapore, Nicaragua, Guatemala, Chile, Peru, Canada; a trade promotion treaty with the United States and other special trade agreements with the Dominican Republic, Colombia and Trinidad and Tobago.

**Foreign Investment**

Since Panama’s incorporation into the World Trade Organization, domestic trade protectionism has decreased. The negotiation of Free Trade Agreements (FTA) has greatly contributed to the increase of foreign investment in Panama. The government has incorporated Basel II recommendations into its banking legislation to improve transparency in the Panamanian banking system and to prevent money laundering.

The immigration legislation has been modified, as well as the improvement of the surveillance of foreign persons in the country. The creation of the special regime for Multinational Headquarters (SEM) and Multinational Manufacturing Companies Headquarters (EMMA) have been the most successful initiatives to attract the establishment of multinational companies in Panama.

**Destination of foreign investment**

According to information provided by the Comptroller General of the Republic of Panama, in December 2020, foreign direct investment in 2020 was USD 423.1 million, a decrease compared to 2019 foreign investment of 3,645.1 million.

**Restrictions on foreign investment**

Under the National Constitution, retail trade is regulated to foreigners in Panama.
Climate

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:

<table>
<thead>
<tr>
<th>Area</th>
<th>74,177.0 km²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>4.315 millones (2020)</td>
</tr>
<tr>
<td>Population per km²</td>
<td>58 hab/km²</td>
</tr>
<tr>
<td>Population growth</td>
<td>1.6% (2020 vs 2019)</td>
</tr>
<tr>
<td>Political system</td>
<td>Representative Democracy</td>
</tr>
<tr>
<td>Form of government</td>
<td>Presidential</td>
</tr>
<tr>
<td>Language</td>
<td>Spanish</td>
</tr>
<tr>
<td>Currency</td>
<td>Panamanian Balboa (PAB) at par value with the US Dollar</td>
</tr>
<tr>
<td>Administrative division</td>
<td>(USO) 10 provinces and 3 Indian reserves</td>
</tr>
<tr>
<td>Religion</td>
<td>Roman Catholic</td>
</tr>
<tr>
<td>Capital city</td>
<td>Panama City</td>
</tr>
</tbody>
</table>

Education

The illiteracy in the last three years has decreased significantly from 7.6% to 5.5%. Education is free and mandatory for children aged 6 to 15 years. By August of 2019 the Ministry of Education reports 817,771 students from primary education to 12th grade of which 420,481 are students of primary schools. The coverage of preschool education is 95.7% in 2019. 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:

#### POLITICAL AND LEGAL FRAMEWORK

<table>
<thead>
<tr>
<th>Exercised by the:</th>
<th>EXECUTIVE</th>
<th>LEGISLATIVE</th>
<th>JUDICIAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>The president</td>
<td>National Assembly</td>
<td>Supreme Court of Justice</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Composed of:</th>
<th>EXECUTIVE</th>
<th>LEGISLATIVE</th>
<th>JUDICIAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>The president and the Cabinet Council</td>
<td>71 deputies</td>
<td>9 magistrates and 9 alternates</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Elected or appointed by:</th>
<th>EXECUTIVE</th>
<th>LEGISLATIVE</th>
<th>JUDICIAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>The president and Vicepresident are elected by direct popular vote for a five-year period.</td>
<td>The Deputies are elected by direct vote every five years.</td>
<td>Are appointed by the president (subject to approval by the National Assembly) for a period of 10 years.</td>
<td></td>
</tr>
</tbody>
</table>

The legal system is based on Napoleonic Code.

### Main political organizations

- Democratic Revolutionary Party - Partido Revolucionario Democrático (PRD)
- Democratic Change - Cambio Democrático (CD)
- Panameñista Party - Partido Panameñista
- People Party - Partido Popular (PP)

Elections take place every five years. The last presidential elections were held in 2019, the upcoming elections are in May 2024.
Panama’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 Panama 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 Panama (the Panama 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 Panama Canal Treaty of 1977, the Panama 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 Panama as a preferred destination.

During the Administration of the president Ricardo Martinelli, Panama 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.

Panama’s economy is based on the operations of the Panama Canal, 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 businesses. Panama has also obtained substantial income through Canaland the licensing of Panamanian flagged ships worldwide. Another important but small sector of the economy is agriculture.

The main products are: bananas, rice, corn, coffee, sugar, vegetables, meat and shrimp.
The clay, limestone, and salt are the main mineral products, and gold, sand ferrous and manganese have been small-scale mining. There are significant but untapped copper deposits, including the Cerro Colorado located in the province of Chiriqui. Some deposits of bauxite, phosphates and minimally carbon have been exploited, as well as other various construction materials such as stone and gravel. Oil reserves have been found in the Pacific and the Atlantic.

Potential Growth Areas
Economic activity measured by the Gross Domestic Product (“GDP”) at constant prices, with the methodology of chained volume measures to prices of 2015 and with year 2007 as reference, recorded an amount of B/. 36,134 million, with an increase of 4.9%, according to the preliminary amounts of the “Instituto Nacional de Estadística y Censo de la Contraloría General de la República”.

Between the economic activities that stood out with greater growth are the mine and quarries exploitation, by the impulse that gave construction projects and the construction that grew because of the government projects (standing out the “Linea 2 del Metro de Panamá”, “Renovación Urbana de Colon”, highways in the country, sanitation, among others) and the private investment.

Inflation
Until December 2020, Panama accumulated an inflation of -1.6%, according to figures from the National Institute of Statistics and Census (INEC).

### Potential Growth Areas

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### Inflation

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### Prices and financial indicators

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP (US$)</td>
<td>B/. 41,763.28 millions</td>
<td>B/. 43,032.78 millions</td>
<td>B/. 35,308.69 millions</td>
</tr>
<tr>
<td>Real GDP growth (%)</td>
<td>3.6%</td>
<td>3.0%</td>
<td>-17.9%</td>
</tr>
<tr>
<td>Prices and financial indicators</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exchange rate Ps: US$ (end-period)</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Lending interest rate (avg:%)</td>
<td>6.9%</td>
<td>7.1%</td>
<td>7.0%</td>
</tr>
</tbody>
</table>

### Current account (US$m)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Balance</td>
<td>B/. -12,268 millions</td>
<td>B/. -11,564.1 millions</td>
<td>B/. -12,268 millions</td>
</tr>
<tr>
<td>Goods: export FOB</td>
<td>B/. 1,079.56 millions</td>
<td>B/. 1,012.2 millions</td>
<td>B/. 1,303.5 millions</td>
</tr>
<tr>
<td>Goods: imports FOB</td>
<td>B/. 13,347.6 millions</td>
<td>B/. 8,904.7 millions</td>
<td>B/. 5,315.5 millions</td>
</tr>
<tr>
<td>Current - account balance</td>
<td>B/. -3,850.3</td>
<td>B/. -2,999.3</td>
<td>B/. 337.0</td>
</tr>
<tr>
<td>Unemployment</td>
<td>6%</td>
<td>7.1%</td>
<td>18.5%</td>
</tr>
</tbody>
</table>

### 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
Panama 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.

Panama 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 Panama 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.

Government attitude toward foreign investment

Special trading rules, granting migration, labor, and tax incentives for investment and creating the PROINVEX office are among the principal ways Panama 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), Panama 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 Panama 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.

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, it 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.

Panama 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 Panama.
Doing Business in Panama

Panama 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 Panama’s incorporation into the World Trade Organization, domestic commercial protectionism has been decreased. 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 General Comptroller

Rates vary from low to significant protectionist (0% - 33%). In terms of comparability, Panama applies the Harmonized Tariff System.
of the Republic of Panama, as of December 2013, Foreign Direct Investment in 2011 was B/. 32,073,224, and in 2014 increased to B/. 2,172 million. In January 2018 the direct foreign investment was of 1,265.70 millions and in January 2019 it increased to 1,648.30 millions.

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:
1. Corporations or Stock company (Sociedad Anónima)
2. Limited Liability Company (Sociedad de Responsabilidad Limitada)
3. General partnerships (Sociedad en Nombre Colectivo)
4. Ordinary Limited Partnership (Sociedad en Comandita Simple)
5. 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.

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 the gains or losses in the proportion agreed upon.
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 Panamá) 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 58 authorized banks in Panama, 2 public banks, 40 with general license and 16 with an international license.

(Source: www.superbancos.gob.pa)
## Employment Offer

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

<table>
<thead>
<tr>
<th>Category</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1,868,602</td>
<td>1,920,642</td>
<td>1,631,691</td>
</tr>
<tr>
<td>Agriculture and others</td>
<td>265,407</td>
<td>276,597</td>
<td>229,442</td>
</tr>
<tr>
<td>Mining</td>
<td>6,974</td>
<td>7,467</td>
<td>3,547</td>
</tr>
<tr>
<td>Manufacture</td>
<td>141,842</td>
<td>144,786</td>
<td>147,509</td>
</tr>
<tr>
<td>Electricity, gas and air conditioning supply</td>
<td>4,599</td>
<td>5,092</td>
<td>2,865</td>
</tr>
<tr>
<td>Water and waste management</td>
<td>7,492</td>
<td>10,074</td>
<td>8,488</td>
</tr>
<tr>
<td>Construction</td>
<td>189,839</td>
<td>172,877</td>
<td>138,729</td>
</tr>
<tr>
<td>Commerce (retail and wholesale)</td>
<td>341,692</td>
<td>349,279</td>
<td>276,014</td>
</tr>
<tr>
<td>Transportation, warehouse and mail.</td>
<td>138,118</td>
<td>144,571</td>
<td>116,673</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>102,023</td>
<td>101,447</td>
<td>69,611</td>
</tr>
<tr>
<td>Information and communication</td>
<td>27,858</td>
<td>27,443</td>
<td>23,986</td>
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<tr>
<td>Financial and insurance activities</td>
<td>42,763</td>
<td>46,533</td>
<td>39,154</td>
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<tr>
<td>Real Estate activities</td>
<td>16,875</td>
<td>14,368</td>
<td>13,658</td>
</tr>
<tr>
<td>Professional, scientific and technical activities</td>
<td>39,612</td>
<td>45,045</td>
<td>37,269</td>
</tr>
<tr>
<td>Administrative Activities</td>
<td>63,161</td>
<td>71,520</td>
<td>69,061</td>
</tr>
<tr>
<td>Public Administration</td>
<td>118,728</td>
<td>117,627</td>
<td>115,941</td>
</tr>
<tr>
<td>Tutoring activities</td>
<td>101,917</td>
<td>105,624</td>
<td>125,056</td>
</tr>
<tr>
<td>Social and health services</td>
<td>94,534</td>
<td>91,512</td>
<td>71,018</td>
</tr>
<tr>
<td>Training and art activities</td>
<td>16,589</td>
<td>19,767</td>
<td>7,227</td>
</tr>
<tr>
<td>Other service activities</td>
<td>72,204</td>
<td>78,516</td>
<td>62,969</td>
</tr>
<tr>
<td>Home activities and other activities related to the production of goods and services.</td>
<td>75,662</td>
<td>88,656</td>
<td>71,238</td>
</tr>
<tr>
<td>Other no declared activities</td>
<td>713</td>
<td>1,841</td>
<td>2,236</td>
</tr>
</tbody>
</table>

**Source:** Ministerio de Trabajo y Desarrollo Laboral (MITRADEL).
Labor and Social Security

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

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.

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. Recently, Executive Decree No. 74 of December 31, 2021 was issued, by which the new minimum wage rates are set throughout the national territory for the next 2 years (2022 and 2023). Below is a table with the increase in the economic activities where there was variation.

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.
### Labor and Social Security

#### ECONOMIC ACTIVITIES

<table>
<thead>
<tr>
<th>Activity</th>
<th>MINIMUM WAGE PER HOUR</th>
<th>Previous Wage (per month) 2020-2021</th>
<th>Current Wage (per month) 2022-2023</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, cattle raising, hunting, forestry, aquaculture, fishing (national)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Small Company</td>
<td>1.55</td>
<td>1.57</td>
<td>0.02</td>
<td></td>
</tr>
<tr>
<td>- Big Company (11 or more employess)</td>
<td>1.91</td>
<td>1.94</td>
<td>0.03</td>
<td></td>
</tr>
<tr>
<td>- Banana Activities</td>
<td>2.13</td>
<td>2.41</td>
<td>0.28</td>
<td></td>
</tr>
<tr>
<td>Fishing (national)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Handcrafted</td>
<td>2.17</td>
<td>2.20</td>
<td>0.03</td>
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</tr>
<tr>
<td>- Industrial</td>
<td>2.38</td>
<td>2.42</td>
<td>0.04</td>
<td></td>
</tr>
<tr>
<td>Agroindustries (national)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Small Company (agricultural part) (national)</td>
<td>1.58</td>
<td>1.60</td>
<td>0.02</td>
<td></td>
</tr>
<tr>
<td>- Big Company (agricultural part) (national)</td>
<td>1.93</td>
<td>1.96</td>
<td>0.03</td>
<td></td>
</tr>
<tr>
<td>Quarries exploitation (national)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>- Sand Activities (national)</td>
<td>2.88</td>
<td>2.91</td>
<td>0.03</td>
<td></td>
</tr>
<tr>
<td>- Mines (national)</td>
<td>2.94</td>
<td>2.97</td>
<td>0.03</td>
<td></td>
</tr>
<tr>
<td>Electricity supply, gas, vapor, air conditioning (national)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Ice production</td>
<td>3.15</td>
<td>3.26</td>
<td>0.06</td>
<td></td>
</tr>
<tr>
<td>Water supply, sewerage, waste management and sanitation activities (national)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Sewerage</td>
<td>3.20</td>
<td>3.26</td>
<td>0.06</td>
<td></td>
</tr>
<tr>
<td>- Waste Collection, Treatment and Disposal</td>
<td>2.91</td>
<td>2.97</td>
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<tr>
<td>- Materials Processing and Recovery (Recycling)</td>
<td>2.77</td>
<td>2.83</td>
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</tr>
<tr>
<td>Construction</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Drainage of Agricultural Lands and Forests (national)</td>
<td>3.24</td>
<td>3.27</td>
<td>0.03</td>
<td></td>
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<tr>
<td>Financial and insurance activities (national)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>- Pawn Shops (national)</td>
<td>3.27</td>
<td>3.34</td>
<td>0.07</td>
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<tr>
<td>Social and human health-related services</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>- Health Clinics and Hospitals</td>
<td>1.94</td>
<td>2.26</td>
<td>0.32</td>
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<tr>
<td>- Health Technicians (national)</td>
<td>3.24</td>
<td>3.30</td>
<td>0.06</td>
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<tr>
<td></td>
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<tr>
<td>Previous Wage (per month)</td>
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<tr>
<td>2020-2021</td>
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<tr>
<td>2022-2023</td>
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<tr>
<td>Increase</td>
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## Labor and Social Security

### ECONOMIC ACTIVITIES

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<tr>
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<td>0.05</td>
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<tr>
<td>Construction</td>
<td>2.28</td>
<td>2.33</td>
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<tr>
<td>- Pawn Shops (national)</td>
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<td></td>
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<tr>
<td>- Health Clinics and Hospitals</td>
<td>3.27</td>
<td>3.34</td>
<td>0.07</td>
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<tr>
<td>- Health Technicians (national)</td>
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<td>- Health Clinics and Hospitals</td>
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<td>0.05</td>
</tr>
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<td>- Health Technicians (national)</td>
<td>2.42</td>
<td>2.47</td>
<td>0.05</td>
</tr>
<tr>
<td>- Health Technicians (national)</td>
<td>3.24</td>
<td>3.30</td>
<td>0.06</td>
</tr>
</tbody>
</table>
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.

Since the enactment of the Social Security Law (Law No. 51 of 2005), is mandatory for the employer the affiliation of its employees to the social security regime. This obligation applies to both national and foreign employees performing services in Panama. The current contribution for the employee is 9.75% and 12.25% for the employer.
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.

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

1. Shareholders Register
2. Acts Register
3. Journal
4. 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.

Requisitos de Facturación Electrónica

Desde el año 2018, Panamá inició la implementación de un Plan Piloto, mediante el cual, los contribuyentes interesados podían participar para acogerse al Sistema de Facturación Electrónica. A partir del 1 de enero de 2022, todos los contribuyentes deben utilizar el sistema de facturación electrónica como único mecanismo para documentar sus operaciones comerciales, ya sea mediante a) el Facturador Gratuito, conforme los lineamientos definidos a través de la página web de la Dirección General de Ingresos, y b) utilizando alguno de los Proveedores Autorizados Calificados (PAC).

A partir del 30 de julio de 2022, todas las entidades públicas están obligadas a recibir de sus proveedores de bienes y servicios, solo facturas emitidas mediante el Sistema de Facturación Electrónica.
The Panamanian tax system is regulated by the Tax Code and many other complementary laws that regulate specific matters. 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 recognizes the comprehensive legislation of transfer pricing rules included in the OECD regulations.

The main taxes you must pay in Panama are:
1. Income Tax
2. Corporate Annual Tax
4. ISC - Excise Tax
5. Fuel other Petroleum Derivatives Tax
6. Capital Gain Tax
7. Dividends Tax and Complementary Tax
8. Operation Notice Tax
9. Stamp Tax
10. 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 del 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.

**Corporate Annual Tax**
Corporate annual tax must be paid by all corporations and private interest foundations. 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.
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.

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

<table>
<thead>
<tr>
<th>Professional Services</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invoice</td>
<td>1,000.00</td>
</tr>
<tr>
<td>Vat (7%)</td>
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</tr>
<tr>
<td>Total</td>
<td>1,070.00</td>
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<tr>
<td>Withholding</td>
<td>70.00</td>
</tr>
<tr>
<td>Supplier payment</td>
<td>1,000.00</td>
</tr>
</tbody>
</table>
**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.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factura</td>
<td>1,000.00</td>
</tr>
<tr>
<td>ITBMS (0.065421)</td>
<td>65.42</td>
</tr>
<tr>
<td>Total Pago al Proveedor (sin retención de ISR)</td>
<td>934.58</td>
</tr>
</tbody>
</table>

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 five million balboas (B/.5,000,000.00). 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).

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 taxpayer’s ordinary business is not the real estate business, the income tax will be calculated on a ten per cent (10%) basis over the capital gains. The taxpayer should make an advance payment equivalent to three per cent (3%) over the gross value of the transaction or the cadastral value, whichever is the highest.

The taxpayer can consider this as definitive payment for capital gain tax. When the amount paid according the 3% rate is over the amount that may result from applying the 10% rate over the capital gain from the transaction, the taxpayer may present an affidavit requesting the amount overdue. The taxpayer has the option to consider this amount as a credit for other tax payments or in cash.
2. If the taxpayer’s ordinary business is the real estate business, from January 1st, 2011, 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:

<table>
<thead>
<tr>
<th>Value</th>
<th>Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to B/.35,000.00</td>
<td>0.50</td>
</tr>
<tr>
<td>From B/.35,000.00 up to B/. 80,000.00</td>
<td>1.50</td>
</tr>
<tr>
<td>More than B/.80,000.00</td>
<td>2.50</td>
</tr>
<tr>
<td>New commercial constructions</td>
<td>4.50</td>
</tr>
</tbody>
</table>

3. 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. 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.
4. 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:

<table>
<thead>
<tr>
<th>Value</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to B/.120,000.00</td>
<td>Exempt</td>
</tr>
<tr>
<td>From B/.120,000.00 up to B/. 700,000.00</td>
<td>0.5</td>
</tr>
<tr>
<td>Over B/.700,000.00</td>
<td>0.7</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Value</th>
<th>Tarifa %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to B/.30,000.00</td>
<td>Exempt</td>
</tr>
<tr>
<td>From B/.30,000.00 up to B/. 250,000.00</td>
<td>0.6</td>
</tr>
<tr>
<td>From B/.250,000.00 up to B/.500,000.00</td>
<td>0.8</td>
</tr>
<tr>
<td>Over B/.500,000.00</td>
<td>1.0</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Category</th>
<th>Maximum years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>3 1/3</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>33</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>33</td>
</tr>
<tr>
<td>Vehicles</td>
<td>33</td>
</tr>
</tbody>
</table>
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:

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

a) 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 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:

a) Central government entities, autonomous entities, semiautonomous and decentralized entities of the State, as well as municipality and community boards.

b) 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/.50,000.00 per fiscal year.

c) 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.

d) 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.

e) 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% rate 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:

<table>
<thead>
<tr>
<th>Recipient</th>
<th>Dividends %</th>
<th>Interest %</th>
<th>Royalties and services %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign entities</td>
<td>5, 10, 20</td>
<td>12.5</td>
<td>12.5</td>
</tr>
</tbody>
</table>

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 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.

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

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

Special tax rates for representation allowances

<table>
<thead>
<tr>
<th>If taxable income is:</th>
<th>Taxes payable will be:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to B/.25,000.00</td>
<td>10%</td>
</tr>
<tr>
<td>More than B/.25,000.00</td>
<td>B/. 2,500.00 for the first B/. 25,000.00 and a rate of 15% on amounts exceeding B/. 25,000.00</td>
</tr>
</tbody>
</table>
Transfer Pricing

Transfer Pricing regulations in the Republic of Panama date back to 2010, and have 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,
Tax System

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.

**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 execute this compromise, Panama started an ambitious agenda of negotiations with the CMs, signing five agreements and concluding other three. Also, there are eight open negotiations and fifteen programmed. The objective is to sign at least thirty agreements for the automatic exchange of information starting 2018.
The year 2015 marked the beginning of a new era on the international scene in the quest to unify the development goals of nations. 193 member countries of the United Nations signed the 2030 Agenda that gave life to the Sustainable Development Goals (SDGs). The 2030 Agenda represents a roadmap towards sustainable development that puts people at the center, from the perspective of inclusion. Implementing the 2030 Agenda brings challenges that vary in each region and country, however, there are megatrends such as population growth and population aging, growth of cities, technological innovations, weakening of the credibility of institutions, geopolitics, among others that have a global impact. As a region, Central America and the Dominican Republic present structural challenges to be solved, despite the efforts led by the Central American Integration System (SICA), there is still no unified strategy for SDG implementation and each country presents different levels of progress, with different approaches, institutions and legislation, which adds complexity. According to the SDG compliance index included in the Sustainable Development Report 2021 (1), Costa Rica is the best-ranked country in the region, occupying 50th position out of a total of 165 nations considered and achieving a score of 73.6 out of a possible 100 points. The first place in the ranking is occupied by Finland with a score of 85.9 and in the last place appears the Central African Republic with a score of 38.3.

The positions of the countries in the region are as follows:

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>Costa Rica</td>
<td>73.6</td>
</tr>
<tr>
<td>67</td>
<td>República Dominicana</td>
<td>70.8</td>
</tr>
<tr>
<td>88</td>
<td>Panamá</td>
<td>68.0</td>
</tr>
<tr>
<td>89</td>
<td>El Salvador</td>
<td>67.9</td>
</tr>
<tr>
<td>99</td>
<td>Nicaragua</td>
<td>66.3</td>
</tr>
<tr>
<td>112</td>
<td>Honduras</td>
<td>62.5</td>
</tr>
<tr>
<td>121</td>
<td>Guatemala</td>
<td>59.9</td>
</tr>
</tbody>
</table>

Source: Sustainable Development Report 2021, Tabla 2.1, pag. 10-11

But the 2030 Agenda also represents an important opportunity for the region as it includes priority issues such as the eradication of extreme poverty, the reduction of inequality in all its dimensions, inclusive economic growth with decent work for all, sustainable cities and climate change, among others (ECLAC).
After the end of the armed conflicts in most of the countries of the region, there was an economic improvement due to the implementation of strategies aimed at greater insertion in the world market and strengthening of the service sector. However, social progress is still needed and it is difficult to turn economic progress into wellbeing for everyone, which still maintains high rates of migration of inhabitants, mainly to northern countries. Environmentally, it has a great diversity of environmental resources in its territory, with a forest cover of 39% of the surface area (greater than the world average), has a great biodiversity potential of 12% of the planet’s total (ERCA, 2016) and has other resources such as water (2). The latter provides the region with global relevance, gives visibility to it at a very important moment in history, where a level of attention and awareness of the importance of the fight against climate change has been achieved. Embracing the green agenda and installing the necessary mechanisms and institutional infrastructure to receive sustainable investments has become a priority for our region. According to a report issued by Climate Bonds Initiative in March 2021 and sponsored by CABEI, the green bond market is still very incipient, only 6 issues have been made so far (including CABEI’s), however there is potential for more growth in green bonds in key sectors such as sustainable infrastructure, agriculture and blue economy. Diversifying projects and investing in climate compatible infrastructure to meet the emission reduction targets of the Paris Agreement are other opportunities identified in the report, in this regard there are key sectors such as renewable energy, low carbon transport, water cycle management and waste management.

Climate change is perhaps the greatest challenge humanity has ever faced, we are currently experiencing a global momentum where business owners and governments are increasingly aware, in our region each country has addressed this issue in different ways and has introduced policies and initiatives aimed at supporting the fight against climate change. The following is a summary:

(Disposition in the order of the SDGs Compliance Index presented above)
Source: Report published by Climate Bonds Initiative, March 2021

Costa Rica
As part of its Nationally Determined Contributions (hereafter NDCs) under the Paris Agreement, Costa Rica has defined a mitigation target of
44% reduction in emissions versus business as usual operations by 2030. Costa Rica issued the National Decarbonization Plan, launched by the Ministry of Environment and Energy in February 2019, this plan includes goals such as:

• Achieve and maintain a 100% renewable energy grid.
• 70% of buses and taxi cabs will be zero-emission and passenger trains will be 100% electric.
• 100% of new commercial, residential, and institutional buildings designed and built with low-emission, climate-resilient systems.

Dominican Republic
The Dominican Republic has defined a mitigation target of a 25% reduction in base year GHG emissions by 2030 under its NDCs. While the government does not have specific targets for the sector, it has several climate policies and initiatives in place, such as:

• Carbon tax, introduced in 2012
• Increased hydroelectric biodiesel capacity.
• Established a forestry working group to improve sustainability in the forestry sector.

The Dominican Republic’s government is also seeking to phase out fossil fuel-generated electricity, which currently accounts for 90.5% of the country’s installed capacity.

Panama
Under its NDCs, Panama has specific sectoral climate targets, which focus primarily on increasing carbon sinks, renewable energy, and sustainable forestry: 38 • Increase renewable energy capacity by 15% by 2030 and 30% by 2050 compared to the base year of 2014 • Increase reforested areas by 1 million hectares by 2030. In addition to these targets, Panama plans to continue implementing the following climate policies: • Participate in international emissions trade • Boost investment in renewable energy sources such as solar, wind and biomass.

El Salvador
El Salvador aims to establish a National Climate Change Policy Plan, which includes several regulatory framework goals within its NDCs:

• Strengthening the institutional and legal framework of the National Climate Plan by 2019.
• Establish a sectoral climate plan at the national level, including agriculture, water and infrastructure.

El Salvador’s climate goals included in its Five-Year Development Plan (2014-2019) include the following:

• Reduce economic losses caused by climate variability in the agricultural sector by one percentage point of GDP.
Sustainable Development Goals in Central America and the Dominican Republic

- Increase the number of municipalities at risk from early warning systems by 20%.
- Restore 10,000 hectares of salty forest and surrounding ecosystems
- Renew 30% of coffee plantations, thus ensuring their resilience to climate change.
- Reduce the number of threatened or endangered species by 10%.
- Reduce the consumption of ozone-depleting substances by 25%.

Nicaragua
Nicaragua has defined the following goals in its NDCs:
- Achieve 60% renewable energy by 2030.
- Increase forest absorption capacity by 20% by 2030.

Nicaragua's National Climate Change Policy is currently in the discussion stage. It will outline the country's plans and will include the following aspects:
- Increasing agricultural resilience.
- Creating a low-carbon development strategy
- Solutions for human resettlement due to climate change
- Developing green infrastructure
- Achieving forest conservation and restoration
- Promoting knowledge, research and funding for climate change mitigation and adaptation.

Honduras
Honduras has the following climate targets as part of its NDCs:
- Reduce national GHG emissions by 15% by 2030.
- Achieve 80% of electricity supply from renewable sources by 2038.

In the context of the country's NDC commitments, the Honduran government aims to continue its progress towards the creation of a climate policy framework, which includes:
- Developing a national climate change investment plan.
- Focusing on water resources, risk management, agriculture, forestry and biodiversity, and infrastructure and renewable energy projects, which are core priorities of the National Climate Change Agency.

Guatemala
As part of its NDCs, Guatemala has defined targets of 11.2% (unconditional) to 22.6% (conditional) reduction in GHG emissions by 2030 compared to the usual scenario. These targets are incorporated into Guatemala’s national development plan known as the K’atun 2032 National Development Plan.

The specific objectives included in the plan are:
- Achieve 80% of electricity from renewable energy by 2027.
Sustainable Development Goals in Central America and the Dominican Republic

- Improve energy savings by 25% in the industrial and commercial sectors by 2027 compared to the 2013 baseline
- Reduce industrial wood fuel use by 15% by 2027 compared to 2013 baseline

Finally, COVID-19 came to delay the SDG implementation process, yet globally the climate, biodiversity and pollution crisis persisted, despite the pandemic (as highlighted by Mr. Liu Zhenmin in the 2021 Sustainable Development Goals report). Concentrations of key greenhouse gases continued to rise despite temporary emission reductions in 2020 linked to confinements and other measures in response to COVID-19. The effects of the pandemic include increases in unemployment rates impacting poverty rates, in addition to the anticipated significant impact on the educational deficiencies of a generation and the long-term impact on the productive capacity of countries. But it is also important to highlight that COVID-19 tested the capacity for adaptation, collaboration, innovation and resilience of human beings and this adds optimism that we will be able to face the challenges of the 2030 Agenda successfully.

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