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At PwC our purpose is to build trust in the Society and solve important problems. PwC is a Network of firms in 157 countries with more than 223,000 people committed to providing quality through our audit, tax and consulting services.

In the Central american region, PwC Interamerica is made up of: PwC Costa Rica, PwC Panamá, PwC El Salvador, PwC Guatemala, PwC Honduras, PwC Nicaragua and PwC República Dominicana.

The information contained in this Business Guide has been updated to December 2016.
Despite the slowdown registered in the region during 2016, the economy in Central America and Dominican Republic continues to benefit from the US economic recovery, given the strong links through exports and remittances. This positive effect is likely to counterbalance the tightening of financial conditions that will result from the normalization of monetary policy in the US. However, the region is expecting a change of government in the US, since an immigration repression would threaten remittance flows in the region, which would impact this important source of growth.

Doing Business in Central America and Dominican Republic 2017 is designed to introduce the investment’s fundament in this territory. Prepared by the professionals of PwC Interamericas, this completed guide is not only ideal for enterprises that look to get into Central America’s market, but for other enterprises that already have their presence here and want to keep up with most recent and relevant changes in tax, legal forms and accounting practices and business. In addition, this guide provides a brief description of each country of Interamerica.

Due to this guide cannot answer all the specific questions you may have, our multidisciplinary professionals’ team is qualified to assist in all matters related to this publication and advise investors on the best way to do business.

On behalf of PwC Interamericas, we hope this guide to be the first step that will help you make the decision to invest and do successful business in our territory.
We are pleased to provide the third edition of the 2017 Doing Business Guide for Central America, Panama and Dominican Republic (InterAmericas). This Guide offers information on the culture, investment climate and tax system for the InterAmericas, including practical responses to frequently asked questions on legal, regulatory and tax compliance matters. The information provided is based on the applicable laws, our knowledge and experience in each of these countries.

InterAmericas has implemented norms and tax reforms aligned with internationally accepted principles, including the business models adopted by the Organization for Economic Co-operation and Development, which represents significant progress and advancement. As a result, the tax authorities in InterAmericas have more skillful, qualified and experienced personnel to attend these matters with the objective of improving tax compliance, and therefore, increasing the revenues for the national budgets. It is important for both local and foreign investors to be up to date on these changes and their practical implications for the future of their businesses.

We hope to be your trusted business advisor as you navigate the changing InterAmericas commercial, legal, fiscal and regulatory landscape, and be able to provide you with our knowledge from what to do, where to go and how to best conduct business in each of these territories while considering each country’s unique culture.

Our tailored approach to service delivery combines our extensive experience working with the legal, regulatory and tax frameworks across the region, our deep knowledge of local business practices and global trends and our uncompromising commitment to confidentiality, independence and our code of conduct. All of which places us in a preferential position within the market.

Your business is our business, and with continued enthusiasm we strive to provide unparalleled tax, legal and regulatory services based on the best local and international practices, always striving to exceed your expectations.

This guide is not intended to be exhaustive and does not constitute advice or legal opinion. For professional advice do not hesitate to contact one of our consultants.
Since their arrival to the New World, the Spanish conquerors found the sparsely populated region of Panama and dominated by independent chiefdoms whose culture was similar to the most advanced civilizations of the Andean Colombia. The first Europeans to explore the region were Rodrigo de Bastidas, Juan de la Cosa and Vasco Nunez de Balboa, who arrived in 1501 and explored the Atlantic coastal region. The former Spanish colonies in the region were established in 1510, near the Chagres River. However, the new arrivals faced great resistance from the indigenous tribes, so they were forced to move their colony to a place to the side of the Atrato River.
Panama

Panama is located in Central America, bordered to the North with the Caribbean Sea, to the south by the Pacific Ocean, to the east by the Republic of Colombia and the West with the Republic of Costa Rica. The capital is Panama City.
Panama
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• Population, form of government, language, currency.
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Overview of the country

Brief history, cont.

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

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

The commercial activity growing in Panama and Portobelo attracted an increasing number of English pirates. Panama was destroyed in 1671, but was rebuilt near its original location two years later and for the next 120 years it was the largest settlement in the isthmus. Portobelo did not fare so well. It was destroyed by English pirates in 1739 and rebuilt in 1751, but by then the Spanish trade routes had changed. Instead of anchoring in Portobelo and take the merchandise by land to the western villages, commercial shipping route from Europe took the South Atlantic Ocean, around Cabo de Hornos at the tip of South America and up the West Coast of South America to anchor in commercial ports in the west. The result of this change was a large decrease in business income of Portobelo.
After the attack on Portobelo in 1739, Spain ceased Panama under the authority of the Viceroyalty of Nueva Granada. However, in 1821 the colony became independent from Spain, and was incorporated into the new union of Gran Colombia. In 1830, this union was divided into nations we know today as Venezuela, Ecuador, and Colombia, and authority was granted on Panama to Colombia. Although Panama was always allowed to choose its own governor after independence from Spain, a new constitution adopted in 1843 gave control of the territory back to Bogota. Eventually Panama was annexed to Colombia as a state.

In the mid-1800s, Colombia negotiated with private investors in the United States to build a railroad that would run on the isthmus, and provide a route that would connect the Pacific with the Atlantic Ocean via the Caribbean Sea. The railroad was widely used during the gold rush of 1849 and inspired the development of plans for the construction of a canal that would cover a similar route, and provide a direct connection between the two oceans. After much deliberation, the Colombian government granted him the rights to build a French company, which started work in 1880.

<table>
<thead>
<tr>
<th>Population, form of government, language, currency:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Area</strong></td>
</tr>
<tr>
<td>78,200 km²</td>
</tr>
<tr>
<td><strong>Population</strong></td>
</tr>
<tr>
<td>3.926 (2015)</td>
</tr>
<tr>
<td><strong>Population per km²</strong></td>
</tr>
<tr>
<td>147.5 hab/km²</td>
</tr>
<tr>
<td><strong>Population growth</strong></td>
</tr>
<tr>
<td>1.41% (est. 2011)</td>
</tr>
<tr>
<td><strong>Political system</strong></td>
</tr>
<tr>
<td>Representative democracy</td>
</tr>
<tr>
<td><strong>Form of government</strong></td>
</tr>
<tr>
<td>Presidential</td>
</tr>
<tr>
<td><strong>Language</strong></td>
</tr>
<tr>
<td>Spanish</td>
</tr>
<tr>
<td><strong>Currency</strong></td>
</tr>
<tr>
<td>US Dollar (US$)</td>
</tr>
<tr>
<td><strong>Administrative division</strong></td>
</tr>
<tr>
<td>10 provinces and 3 indian reserves</td>
</tr>
<tr>
<td><strong>Religion</strong></td>
</tr>
<tr>
<td>Roman Catholic</td>
</tr>
<tr>
<td><strong>Capital city</strong></td>
</tr>
<tr>
<td>Panama City</td>
</tr>
</tbody>
</table>

Source: Autoridad del Canal de Panamá website, https://canalampliado.com/es/
However, the project failed prematurely, the hot rain forests were breeding mosquito-borne diseases such as malaria and yellow fever, and soon workers were sick.

The Colombian government after that, saw the United States as a potential partner in the construction of the canal, but rejected his proposal in 1902. The failure of the government for not having secured the contract further encouraged the revolutionary movement that was already hectic enough other problems with Colombia. On November 3, 1903 a revolutionary meeting proclaimed the separation of Panama. Colombia sent armed forces to stop the rebellion, but were stopped by a number of U.S. interventions, and the separation of Panama was secured. The canal treaty was signed with the United States on November 18, 1903. Was agreed to establish a canal zone 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 seen in good way by the Panamanian people. Construction began the following year, and in 1914 the Panama Canal was opened.

Following the success of the revolutionary movement to achieve separation of Panama, the new forces in the power instituted a new government. The first constitution, adopted in 1904, instituted a centralized government headed by a president, who has the authority to appoint and dismiss provincial governors. It also gave permission to the United States to use its military force to intervene in any disturbance that occurs in the new nation, a situation that often occurred during the first quarter century.
The first President of the New Republic was Manuel Amador Guerrero, who was appointed by a constitutional convention in 1904. During his term as president, Guerrero focused on organizing the new branches of government, the Executive, Legislative, and Judicial, and made important changes in the structure of the presidential cabinet.
During the first three quarters of the 20th century, in Panama there were many political and military coups. Much of the dissatisfaction civil 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 asked the U.S. to give up its right to intervene militarily in Panama.

In 1940, the newly elected President Arnulfo Arias made a change in the constitution of Panama that extended the presidential term. Arias was a populist who led a violent coup in 1931 that overthrew the government of then President Florencio Arosemena. The presidential term of Arias was also relatively short. In 1941 he was ousted from the presidency by the national police and replaced by Ricardo Adolfo de la Guardia, who gave permission to the United States to establish military protection of the canal and the Canal Zone.

Panama's political situation became very unstable after WWII. De La Guardia was removed from office in 1945 by the Legislature and appointed the diplomat Enrique A. Jimenez as Interim President. Arnulfo Arias returned to run for president in 1948 but was defeated in the elections by Domingo Diaz, who died in office the following year. After the death of Diaz, his two vice-presidents refused to replace it. After that there were some unusual handling of the 1948 election to claim the National Election Board, the body responsible for overseeing the electoral process in Panama that Arias had won the 1948 election. Arias won the presidency again. In 1951, Remon led a coup that overthrew Arias, whom he had previously supported. The following year he was elected President Remon, to be murdered in 1955 and the following year Ernesto de la Guardia was elected President.

The Presidential term of De la Guardia had virtually no outstanding event, although the social dissatisfaction led to a wave of protests in 1958 that resulted in the imposition of martial law. In 1960 Roberto Chiari was elected President, he instituted a program of ambitious social reform regardless of the huge budget deficit and the national debt. Government control was taken over by a military meeting led by General Omar Torrijos who made a change in the constitution that granted more powers.
Despite the serious financial problems of the country, Torrijos authorized large public works programs, gaining the approval of the people but increasing the Public Debt. In 1977, Panama has suffered economic decline and the following year began negotiations for new contracts for the control of the Panama Canal.

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

After Torrijos tragic death in a plane crash in 1981, control passed to several military commanders before it was taken by Manuel Antonio Noriega in 1982. In 1988 the United States accused Noriega of drug trafficking charges and imposed severe economic sanctions on the country in an effort to force his resignation. As a result there was an increase in the unemployment rate and declining productivity and sales. At the end of the 20th century, the political problems continued to plague the Panamanian government. At the end of 1989, Noriega survived an attempted coup by Panamanian soldiers, and on December 15, 1989 was elected to handle the "state of war" with the United States.

During those days 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 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 politic 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 four elections (2001, 2004, 2009 and 2014) and during the global economic crisis, Panama has maintained a healthy growth.

Also, under the Panamanian Administration it is currently performed the expansion of the waterway, which for 2016, after different vicissitudes it was inaugurated, increasing the volume capacity and traffic in the Canal. The referred program consists in the following projects:

- Third group of locks, is the construction of two new locks complex that generate a third traffic rail.
- Access channel to the Pacific Ocean, which consist in the excavation of a 6.1 Km channel through the new Pacific locks in Milaflores.
- Improvements in the water provision through the increase of the maximum operative level of Gatun Lake for 45 centimetres in order to obtain a better water provision in the project.

**Climate**

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

**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. At high levels, vocational and university, you may be taxed for the construction of libraries and laboratories. Primary education lasts for six years. In 2013 there were 1,033,785 students enrollment. Pupil-teacher ratio; primary in Panama was last measured at 23.46 in 2010, according to the World Bank. Primary school pupil-teacher ratio is the number of pupils enrolled in primary school divided by the number of primary school teachers (regardless of their teaching assignment).
Secondary education has two levels, each, middle school and high school, each with three years’ duration. The leading higher education institution, the University of Panama, is a state 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:

<table>
<thead>
<tr>
<th>Political and legal framework</th>
<th>Executive</th>
<th>Legislative</th>
<th>Judicial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exercised by the:</td>
<td>The President</td>
<td>Legislative Assembly</td>
<td>Supreme Court of Justice</td>
</tr>
<tr>
<td>Composed of:</td>
<td>The President and the Cabinet Council</td>
<td>71 deputies</td>
<td>9 magistrates and 9 alternates</td>
</tr>
<tr>
<td>Elected or appointed by:</td>
<td>The President and Vice-President are elected by direct popular vote for a five-year period.</td>
<td>The Deputies are elected by direct vote every 5 years.</td>
<td>Are appointed by the president (subject to approval by the Legislative Assembly) for a period of 10 years.</td>
</tr>
</tbody>
</table>

The legal system is based on Napoleonic Code.

#### Main political parties

- Democratic Revolutionary Party – Partido Revolucionario Democrático (PRD)
- Democratic Change – Cambio Democrático (CD)
- People Party – Partido Popular (PP)
- Nationalist Republican Liberan Movement – Partido Liberal Republicano Nacionalista
- Panameñista Party – Partido Panameñista

Elections take place every five years. The last presidential elections were held in 2014, the upcoming elections are in 2019.
The Economy

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 oil 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 Pérez 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 the pipeline and licensing 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
The expansion project of the Panama Canal in Panama contributed to maintain stable economic growth, and the government has continued with the execution of major projects such as the construction of Metro City, which is currently running, and pretends the building of 13 stations along the country, the construction of a residential complex for Curundú (a poor neighborhood and undeveloped in the city center), the work that has already been provided, among others.

With the decrease of income tax for companies and individuals, the government hopes to attract more private investment.
<table>
<thead>
<tr>
<th>GDP</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP (US$ b)</td>
<td>B/. $33,573.5 millions</td>
<td>B/. $46,212.6 millions</td>
<td>B/. $52,132.3 millions</td>
</tr>
<tr>
<td>Real GDP growth (%)</td>
<td>6.6%</td>
<td>6.1%</td>
<td>5.8%</td>
</tr>
</tbody>
</table>

**Prices and financial indicators**

<table>
<thead>
<tr>
<th>Exchange rate Ps: US$ (end-period)</th>
<th>1</th>
<th>1</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lending interest rate (avg; %)</td>
<td>6.1%</td>
<td>6.6%</td>
<td>7.5%</td>
</tr>
</tbody>
</table>

**Current account (US$ m)**

<table>
<thead>
<tr>
<th>Trade balance</th>
<th>5,257</th>
<th>9,708</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods: exports fob</td>
<td>B/. $843.7 millions</td>
<td>B/. $817.2 millions</td>
</tr>
<tr>
<td>Goods: imports fob</td>
<td>B/. $843.7 millions</td>
<td>B/. $817.2 millions</td>
</tr>
<tr>
<td>Current-account balance</td>
<td>B/. $843.7 millions</td>
<td>B/. $817.2 millions</td>
</tr>
</tbody>
</table>

**Unemployment**

| Unemployment (avg. %)          | 4.3% | 5.1% | 5.3% |

Sources: CIA World Factbook as of February 2013.

**Inflation**

The consumer price index for fiscal year 2011 showed an increase rate of 5.9% over the previous year, in 2012 the consumer price index for fiscal 2012 recorded a rate of 6.1% over in 2011, by 2013 the inflation rate was 3.7% over 2014 and an increase over the previous year of 1.0% was recorded; meanwhile in 2015 it has a significant decrease reporting an annual result of 0.17%.
Doing Business in Panama

Government attitude toward foreign investment

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, hotel in general and fruit exporters.

Panama has not issued paper currency, and the U.S. dollar is used as the medium of circulation. The Balboa is an even value and the U.S. dollar equivalent. Therefore, a control authority is not necessary.

There are no registration requirements for capital and there is no tax on the transfer of funds to the country. There are no controls on the 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.

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

PROINVEX is a “one-stop shop” where every investor interested in investing in Panama may obtain in a single office all the information required to achieve a successful investment. Investors can also get updated information on special fiscal regimens such as the Multiregional Headquarters (MHQ), Special Economic Zone of Panama Pacifico (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 meals, pharmaceuticals 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 bad business practices.

To date there are no restriction on mergers and acquisitions, as well as any 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 incentives provided in the development of industrial laws is the protection from foreign competition by establishing tariffs and import quotas on some sensitive products. There are imposed tariffs on all foreign goods entering the country, except those who are exempted by law or special contracts.

Tariffs are taxes on either the value and are based on quantity, weight, size or volume. Rates vary from low to significant protectionist (0% - 33%). In terms of comparability, Panama applies the Harmonized Tariff System.

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.

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 relate 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 free trade agreements with Honduras, Costa Rica, El Salvador, Taiwan, Singapore, Nicaragua, Guatemala, Chile and other trade agreements with the Dominican Republic, Mexico and Colombia.

In 2008 Panama concluded negotiations regarding a Trade Promotion Agreement with the United States. This agreement will promote economic opportunities by eliminating tariffs and other barriers to trade in goods and services. To take effect, the agreement must be approved by the legislatures of both nations.

The treaty was approved by the President of the United States, Barak Obama and take effect from October 31st 2012.

**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.

Migratory legislation has been modified, improving the monitoring of foreign individuals in the country. The creation of the Multiregional Headquarters special regimen 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 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.

Restrictions on foreign investment
Under the Panamanian Constitution, retail business is restricted for foreigners in Panama.

Establishing Business in Panama

Business structures

Forms of business entities
The Panamanian law recognizes five different forms of legal entities:

- Corporations or Stock company (Sociedad Anónima).
- Limited Liability Company (Sociedad de Responsabilidad Limitada).
- General partnerships (Sociedad en Nombre Colectivo).
- Ordinary Limited Partnership (Sociedad en Comandita Simple).
- Joint – stock Company (Sociedad en Comandita por Acciones).

These five types of entities can be used for the operation of any type of commercial business. A business can also be operated by a single owner. In practice, 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 they are intended to start operations within our territory, they need to file with the Public Registry of Panama for 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 develop operations to which they do not have rights in their country of domicile”. It is considered that the natural or legal persons 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 Panamanian territory, any premises or fixed place of business, whether they develop their activity wholly or partially.

Registration procedure

The registration procedure is established in accordance with the Commerce Code and the special rules governing LLC’s and Corporations. As a general rule, a document is drafted by a practicing attorney appointing subscribers and approving the incorporation bylaws. This procedure allows a local attorney to get the deed ready without the need for the foreign investor to come to Panama to sign. The board and the stockholders can be either nationals or non-nationals, and can be either individuals or juridical entities. The incorporation takes one day and the incorporation of branches may takes longer, but no more than three days on average.

Joint venture

Joint Venture is a contract between two or more persons who are classified as partners with an interest in one or various specific and transitional business operations, which shall be run by one of them in his name alone and under his personal credit, with responsibility for tabulating and dividing with stakeholders the gains or losses in the proportion agreed upon.
Banking System

Central bank

There is no Central Bank in Panama.

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

General
For banks organized under the laws of Panama and branches of foreign banks that transact 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 on their own account.
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, one is the National Bank of Panama (Banco Nacional de Panamá) and the other is the Savings Bank (Caja de Ahorros).

Commercial banks
The Superintendent of Banks is the government entity responsible for granting licenses to all the different banks when they want to operate in Panama.
Currently Panama has one of the largest banking and financial centers of the region including large banking institutions worldwide.
The banking system in Panama is well established, composed of a number of private institutions that are regulated by the Superintendent of Banks. There are 78 authorized banks in Panama, 2 with official license, 47 with general license and 29 that operate with an international license.
(Source: www.superbancos.gob.pa)

**Labor and Social Security**

**Labor supply**

Employment statistics, according to the Ministry of Labor (Ministerio de Trabajo y Desarrollo Laboral – MITRADEL), are the following:

<table>
<thead>
<tr>
<th>Level of employment</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>280,113</td>
<td>276,949</td>
<td>226,503</td>
</tr>
<tr>
<td>Agriculture and others</td>
<td>339</td>
<td>399</td>
<td>328</td>
</tr>
<tr>
<td>Exploitation of mines</td>
<td>106</td>
<td>95</td>
<td>54</td>
</tr>
<tr>
<td>Manufacture industry</td>
<td>8,790</td>
<td>8,574</td>
<td>6,737</td>
</tr>
<tr>
<td>Electricity, gas and air conditioning supply</td>
<td>1,207</td>
<td>1,473</td>
<td>1,477</td>
</tr>
<tr>
<td>Water and waste management</td>
<td>111</td>
<td>86</td>
<td>217</td>
</tr>
<tr>
<td>Construction</td>
<td>10,4858</td>
<td>9,9587</td>
<td>8,6509</td>
</tr>
<tr>
<td>Commerce (retail and wholesale)</td>
<td>62,346</td>
<td>68,316</td>
<td>49,300</td>
</tr>
<tr>
<td>Transportation, warehouse and mail.</td>
<td>5,965</td>
<td>5,147</td>
<td>8,354</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>18,350</td>
<td>16,949</td>
<td>13,477</td>
</tr>
<tr>
<td>Information and communication</td>
<td>4,421</td>
<td>4,883</td>
<td>4,070</td>
</tr>
<tr>
<td>Financial and Insurance activities</td>
<td>9,320</td>
<td>9,337</td>
<td>7,319</td>
</tr>
<tr>
<td>Real Estate activities</td>
<td>1,830</td>
<td>1,990</td>
<td>1,847</td>
</tr>
<tr>
<td>Level of employment</td>
<td>2014</td>
<td>2015</td>
<td>2016</td>
</tr>
<tr>
<td>---------------------</td>
<td>------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>Professional, scientific and technical activities</td>
<td>3,909</td>
<td>4,047</td>
<td>3,196</td>
</tr>
<tr>
<td>Administrative Activities</td>
<td>26,822</td>
<td>29,652</td>
<td>23,016</td>
</tr>
<tr>
<td>Public Administration</td>
<td>2,374</td>
<td>2,536</td>
<td>1,455</td>
</tr>
<tr>
<td>Tutoring activities</td>
<td>5,450</td>
<td>5,868</td>
<td>4,704</td>
</tr>
<tr>
<td>Social and health services</td>
<td>1,903</td>
<td>1,776</td>
<td>1,847</td>
</tr>
<tr>
<td>Training and art activities</td>
<td>2,071</td>
<td>2,389</td>
<td>1,689</td>
</tr>
<tr>
<td>Other service activities</td>
<td>13,521</td>
<td>13,030</td>
<td>9,859</td>
</tr>
<tr>
<td>Home activities and other activities related to the production of goods and services</td>
<td>45</td>
<td>75</td>
<td>771</td>
</tr>
<tr>
<td>Other no declared activities</td>
<td>6,375</td>
<td>690</td>
<td>277</td>
</tr>
</tbody>
</table>

Source: Ministry of Labor and Labor Development (MITRADEL).

There are three different types of employment contracts established by Panamanian law, permanent contracts, agreements and contracts defined by work or services. Companies need to employ foreigners must obtain permission from the Ministry of Labor and Workforce Development. 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 Sunday work, another day should be given in lieu of it, and Sunday will be paid with an extra charge of 50%.

Each employee is entitled to thirty (30) days paid vacation after eleven (11) months of continuous work.

In Panama it’s mandatory that the employer must pay its employees an salary representing a thirteen month representing a full month’s wages and shall be paid in three equal games (April 15, August 15 and December 15). This salary is calculated based on the total wages received. The XIII Month is subject to the payment of social security contributions.
Panama has a minimum wage scale depending on location and economic activity, which is adjusted periodically. The system of minimum wage scale is applicable in practice only to apprentices employed. The effective average wage rates are substantially higher than the minimum wages, especially in the metropolitan area.

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

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

**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.

**Fringe benefits**
Housing & children’s education are among the most common fringe 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 remunerated vacation after 11 months of continuous work.

**Foreign personnel**
Panama recognizes joint investment with no restrictions. Labor Code is applied equally to Panamanian and foreigners. It also applies equally to domestic and foreign. 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 the 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 and with no need for a work permit granting this individual exemption from income tax and social security contributions.

**Social security**

The Social Security Fund 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 (Act No. 51 of 2005), is mandatory for the employer affiliation of its employees to the regime of the Social Security Fund. This obligation applies to both domestic and foreign employees performing services in Panama. The current contribution for the employee is 9% and 12% for the employer. According to the law will increase progressively to the employee during the coming years to a maximum of 9.75% for the employee in 2013.

**Accounting and Audit Requirements and Practices**

**Accounting**

The accounting principles normally followed 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 GAAP are used upon previous notification to the regulatory entity.
There are three active accounting professional organizations: the Certified Public Accountants Association, the Panamanian Association of Women Accountants and the Panamanian Certified Public Accountants College. The three organizations appointed a Financial Accounting Standard Committee in 1978 to define generally accepted accounting principles in Panama.

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

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

- Book of Share Certificates.
- Share Record Book.
- Book of Acts.
- General Journal.

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 filing statutory audits in Panama. However, the companies listed on the National Securities Commission, commercial and governmental banks and the insurance and reinsurance companies are required to provide annual audit financial statements by independent auditors to be submitted to the authorities. If the capital of the taxpayer exceeds B/. 100,000.00 or 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 also duly audited by a CPA.
Accounting profession

Licenses to practice as Authorized Public Accountant (CPA) are issued by the executive branch. Candidates must have obtained a degree in accounting.

Tax System

The Panamanian tax system is regulated by the Tax Code and many other different laws governing specific matters. Our most recent structural reform is Law No. 8 of 2010. It reduces tax rates, raising the overall rate ITBMS, 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 treaties to avoid double taxation and formally recognize the comprehensive legislation of transfer pricing rules by virtue of the provisions contained in the OECD.

The main taxes you must pay in Panama are:

- Income Tax.
- ITBMS - Tax on Transfer of Goods and Service (VAT).
- ISC - Excise Tax.
- Tax and other fuel products.
- Stamp Duty.
- Tax on dividends and supplementary.
- Operation Tax Notice.

*Tax on corporate income*

The tax rate is 25%.

For companies in which the state owns more than 40% of the stock, 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 US$ 1,500,000 will be the greater of one of the followings:
• Net Taxable income calculated on the normal basis, or
• 4.67% of the gross taxable income (excludes exemptions and non taxable income and foreign source income) – this is called the Alternate Calculation of Income Tax (“Cálculo 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%, the taxpayer may request from the Tax Administration (the General Directorate of Revenues - DGI) the no application of the alternative method, in order to be taxed according to the traditional method calculation.

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

Franchise tax
Franchise income tax must be paid by all corporations on an annual basis. The deadline for payment depends on the date of the company’s incorporation. If the company was incorporated on any date in the first six months of the year, the due date for payment will be 15 July of each year. If it was incorporated in the last six months, the due date will be 15 January of each year.

Non-profit organizations, cooperatives and civil 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.

In cases where entities belong to tax residents in countries which Panama has subscribed a Double Taxation Treaty (DTT), tax rates over the dividends vary according to the provisions established in the applicable treaty.
Dividend tax foresee a presumptive annual distribution of 40% of the profits after income tax, which in case it is not executed, requires the tax payment equivalent to the distribution (complimentary tax of 4% (10% of the 40% over the profits).

**Excise tax**

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

- Movable goods transfer and provision of services (ITBMS)
- Is the Panamanian Value Added Tax (VAT).
- Tax rate is 7% effective 30th of June 2010, according to Law 8, 2010.
- Alcoholic beverages are taxed at 10% and tobacco and tobacco – derived products are taxed at 15%.
- ITBMS is calculated on the value added thorough a method of tax credits (ITBMS paid on taxable transactions) and tax debits (ITBMS collected on transactions.)
- Exports are not taxed and the ITBMS paid to generate the exports may be refunded. The sale of goods such as medicines, foods, and certain products for babies are not taxed, and may not allow the supplier to recover the ITBMS as an exporter if certain criteria’s are met.

During 2016, it was established the legislation related to VAT withholding agents, which summarized the following aspects:
1. Invoices issued from November 2015 are subject to a withholding of 50% of VAT, which will be applied by the designated withholding agents by the Panama Tax Administration.

2. If the payment beneficiary is a withholding agent designated by the Panama Tax Administration, then the withholding will not be applicable.

3. Entities that manage credit or debit cards will apply the 2% over the total amount of the transaction.

4. No withholding will be applicable to providers of goods and services, businesses or persons affiliated to entities that manage debit or credit cards that are not VAT taxpayers.

5. The withholding agent should issue certificates for the withholdings performed in the month the withholding is generated to all the providers subject that have been subject to it.

6. The withholding agent must be assigned by the Panama Tax Administration.

**Withholding Agents**

A) State agencies, decentralized entities, public enterprises, municipalities and other public sector entities, as all those entities not exempt, making payments or managing state funds (regardless of the amount of the compensation). Withholding amount: it well be the fifty percent (50%) of VAT included in the invoice or equivalent document. In the case of professional services, the withholding will be applied to the one hundred percent (100%) of VAT included in the invoice or equivalent document.

<table>
<thead>
<tr>
<th></th>
<th>Services professionals</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invoice</td>
<td>1,000.00</td>
<td>1,000.00</td>
</tr>
<tr>
<td>VAT (7%)</td>
<td>70.00</td>
<td>70.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,070.00</strong></td>
<td><strong>1,070.00</strong></td>
</tr>
<tr>
<td>Withholding</td>
<td>70.00</td>
<td>35.00</td>
</tr>
<tr>
<td>Supplier payment</td>
<td>1,000.00</td>
<td>1,035.00</td>
</tr>
</tbody>
</table>
**Exclusions:** Payments made through the petty cash are excluded according to the regulation of the Panama Tax Authority.

B) Those persons that pay or credit retributions for taxable transactions made by individuals residents or entities incorporated abroad, if these do not have in Panama any branch, agency or establishment:

<table>
<thead>
<tr>
<th>Services professionals</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Invoice</td>
<td>1,000.00</td>
</tr>
<tr>
<td>VAT (7%)</td>
<td>65.42</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>934.58</strong></td>
</tr>
<tr>
<td>Withholding</td>
<td>65.42</td>
</tr>
<tr>
<td>Supplier payment</td>
<td>934.58</td>
</tr>
</tbody>
</table>

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

D) Partnerships, as the entities described in the Panama Commerce Code, referred in article 7 from the Executive Decree No. 84.

E) Those who are or are not taxpayers of VAT, and in the immediately preceding fiscal period comply with the criteria of annual purchase of goods and services equal or exceed ten million dollars (B/.10,000,000.00). The tax administration will determine the limits and conditions to lower purchase that are not subject to the related withholding. Withholding amount: it will be the fifty percent (50%) of VAT included in the invoice or equivalent document submitted by the suppliers.

F) Issuers or administrators of debit and credit cards responsible for the making payments to merchants and service providers in general, at the time of payment or when paying a portion of a credit to persons or its affiliated establishments.
Withholding amount: it will be the fifty percent (50%) of VAT caused by taxable sales, goods or services.

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

Exclusions: Suppliers of goods or services, or businesses or individuals affiliated to entities that manage credit or debit cards that are not considered as VAT taxpayer are not included in the scope of these provisions. In these cases it will be necessary to prove the referred condition through a non-taxpayer certificate of VAT or other certificate which specify that the activity in mention is not taxable; both certificates should be issued by the Panama Tax Administration.

**Other exclusion**

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

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

**Conditions required for the application of VAT withholding**

a) That a total or a partial payment of the price has been made.

b) That the payment corresponds to a VAT 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.
VAT return

By Resolution 201-17687 from October 20, 2015 is adopted the form 433 corresponding to the withholding VAT report, addressed to the monthly payment and filing of all the withholdings performed during each period, along with information and report of the subjects and amounts withheld (Official Gazette No. 27893-B).

Capital Gain Tax

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

1. If the taxpayer ordinary business is not the sale of real estate:
   In this case, the taxpayer should make an advance payment equivalent to 3% calculated over the gross value of the transaction. The taxpayer can consider this as definitive tax payment or calculate the tax rate established by the law for capital gains, which is the 10% over the net capital gain and request to the Panama Tax Administration, the reimbursement of the advance tax payment made before, in case this was higher.

2. If the taxpayer’s ordinary business is the sale of real estate:
   If the construction permit is issued after January 1st, 2011 and the property was valued at least two years prior to the date of sale, the following table is applicable:

<table>
<thead>
<tr>
<th>Value</th>
<th>Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>New house up to B/.35,000.00</td>
<td>0.50</td>
</tr>
<tr>
<td>New house from B/.35,000.00 up to B/.80,000.00</td>
<td>1.50</td>
</tr>
<tr>
<td>New house from more than B/.80,000.00</td>
<td>2.50</td>
</tr>
<tr>
<td>New commercial construction</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.

A special 2% Real Estate Transfer Tax applies on the transfer of real estate, except in cases where the new construction is being transferred for the first time.

In the case of the direct or indirect sale of shares or securities generated from Panamanian source, 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 authorities on behalf of the seller, in the next 10 following days after the transaction is performed.

b. The seller may choose to accept as a definitive tax payment, the withholding made by the seller, or can calculate the capital gain tax applying a 10% rate over the net value of the transaction, deducting the amount already paid and request to the DGI the reimbursement of the payment made in excess.

In the case of the sale of movable goods, the capital gain tax will be calculated at a 10% rate over the capital gain obtained.

**Corporate deduction**

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

**Ordinary repairs and improvements**

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

**Depreciation**

Permitted depreciation methods are: the straight – line and some accelerated methods.
% Straight – Line

<table>
<thead>
<tr>
<th>Category</th>
<th>Minimum %</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.

Set – up 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
Interest, service fees and royalties are subject to withholding tax based on 50% of remittance (tax rate 25%) and will be deductible as long as necessary to generate profits preserve the income – generating source.

Insurance premiums
Insurance premiums related with risks associated with taxable activities are deductible. In special cases, it is possible to contract insurance (special risk) 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 contributor can deduct the bad accounts opting by one of the following two systems:

a) Charging annually to revenues and losses the value of the account in the fiscal year;

b) Charging annually one cipher of revenue and losses for the constitution of one reserve destined to do front to contingency of that nature.

Adopted the system of the reserve, the contributor can change doing the necessary adjustment affined that the imputation to the account of revenue and losses can only get one time spent the reserve constituted with anteriority and set up previously the change in knowledge of Panama tax Administration.

If the contributors opted for the system of constituted one reserve to do front to the departures uncollectible, only can be deductible by annual expense a provision equivalent at the one percent (1%) of the total of the sales at credit of assets or benefits of serves realized in each fiscal year. In any moment the balance of the reserve can by mayor of the teen percent (10%) of the balance of the accounts and documents per charge commercial at ending of the fiscal year.

Donations
Can be Deducible for the contributor the expenses and expenditures in concept of donations in dollars or in species to:

A) The entities of the central government, autonomous entities, semiautonomous and organisms decentralized of the stated, as well as municipality and community boards.

B) Educative institution or of benefit of the town without lucrative finnic.

Deductions are limited to 1% of taxable income for corporations, and to US$ 50,000.00, a year for individuals.

C) Political partiers or candidates of post of popular choice. Each contributor can deduce, in each fiscal period, up to an amount of ten thousand dollars (B/.10,000.00).
D) The quota paid to entities, associations or guild without lucrative finnic of the country, as long as it find properly authorized to receive donations deductible by the Panama tax administration.

E) Activities relationship with the prevention of infections of sexual transference or of the virus of the Human Immunodeficiency (VIH), for the treatment or integral attention of the affected persons or sick with the VIH, up to a maximum of ten thousand of dollars (B/.10,000.00) annual, according with the law No. 3 of 2000. The donation will be performed to ministry of health and correspond to the contributor check the same through certification of the society.

F) Other entities provide in the law.

When the donation were in species, the value of the same in the case of new assets will the cost of acquisition accorded the invoice. Treated of used assets, the value of the donation will be the value of cost less the accumulated depreciation.

The donation in the time an in the space in the social medias and the services that present at favour of the natural persons or juridical mentions in these article, is going to be deductible even for the value in which the same would have be register, involved and declared like income by the contributor.

*Net operating losses*

Net operating losses incurred by taxpayers may be deducted from the taxable profits for the following five years at 20% rate each year but limited to 50% of taxable income each year.

Payments made abroad and withholding tax (WHT)

Taxpayer performing certain type of payments should apply the following tax 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>

In the case of dividends the tax will apply in both cases: where the payment is made to a local entity or a foreign 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 of May 2015, establishes that companies which are in a fiscal loss position, must apply the withholding tax regardless of the fact that the expenses was not considered deductible.

**Tax Incentives**

*Inward investment*
Investment in industries, agro-industrial, marine resource 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.

*Accelerated depreciation*
According to tax law, a taxpayer can opt to apply accelerated depreciation depending on the use of assets without express authorization from the DGI but will be limited to minimum useful life period described by law.

*Tourism, industry and agriculture allowances*
Tourism development: The incentive Law for Tourism Development grants several tax benefits, such as exemption from import duties on certain tourism service-related goods and from property tax for companies dedicated to tourism, but only for those corporations with a signed tourism agreement with the government. In some special cases, income tax exemptions apply.

Forestry proceeds are totally exempt from income tax if final disposition of plantation derived from property duly inscribed with Forestry Registry of Environmental National Authority up to 2018.
Corporate Tax Compliance

Tax 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:

- 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.
- If the tax return was not filed on time, it can be audited for up to seven years.

Juridical entities with taxable gross income greater than B/. 36,000.00 must submit monthly income tax instalments within the first 15 days of each month. The instalment is 1% of the gross taxable income from the previous month.

Payment of Tax
Tax is paid via income tax return, and must be made no longer than 3 months after closing of the corresponding accounting period. The amount of the income tax can be paid in one and only payment. Additional with this tax, through the income tax return is generated the obligation of an estimated income tax, which is divided in 3 installments: on June 30th, on September 30th and a final on December 31st.

The taxpayers can request to the Panama Tax Administration an special period of 12 months 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, in certain cases, 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-residency” 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 satisfy 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 another kind 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.

On the annual income tax return, the taxpayer may deduct any expenses incurred within the fiscal year that are directly related to the generation or preservation of income.

**Individual tax compliance**

*Income tax return filing*

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 remains 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. For individuals, the tax returns must be filed before March 15th following the end of the fiscal year in which the income is earned, with the possibility to have an extension for an additional month.

**Tax payment**

If tax payment is required, it must be made before March 31st, in order to avoid interest charges. If taxpayers request an extension, it will be granted only for filing and not for payment. Overdue payment will trigger surcharges of the 10% calculated over the tax that was not paid and moratory interests (11% annual average).

**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**

The Republic of Panama, recently adopted provisions on transfer pricing compliance, Through Law 52 of 2012, in order to align the legislation with the principle of arm’s length.
The related legislation pretends that all the transactions performed between related parties, domiciled abroad and that have incidence in the determination of the income tax, are agreed in similar conditions as those provided to independent parties.

The obligation requires the filing of an informative return detailing the transactions performed with related parties within the 6 following months after he closing of the fiscal year and also, the preparation of the transfer pricing documentation in case the DGI require it.

Panama has applied the guide of transfer pricing rules issued by the OECD.

**International Taxation**

The Republic of Panama, through the reform carried out in 2012, established the rules for the adoption and guide to the Double Taxation Treaties signed by the Republic of Panama, this reform included the adoption of the terms such as: tax residence, permanent establishment, certificate of Tax Residence and application of benefits of Double Taxation Treaties.

To date, Panama has a network of double taxation treaties covering 16 treaties with the following countries: Mexico, Barbados, Qatar, Spain, Luxembourg, Netherlands, Singapore, France, Italy, Korea, Portugal, Ireland, Czech Republic, United Arab Emirates, UK and Israel.

In addition to these Panama has negotiated Exchange of Information Agreements with the United States, Iceland, Canada, Finland, Norway, Sweden, Greenland, Faroe Islands and Norway.
Francisco is a Certified Public Accountant graduated from the Universidad de Panama. Additionally, he has Postgraduate Degrees in Management, a Master Degree in International Finance from the Isthmus University, and a Degree in Taxation from the Specialized University of the Public Accountant in Panama.

Francisco has more than 15 years of experience specializing in tax consulting, compliance and planning services for local and international companies. He has actively participated in the development of tax projects for several organizations, including non-for-profit and service organizations. Within his activities, he has led several projects of due diligence, tax evaluations and operative strategies, income tax, ITBMS (VAT), consumer selective tax, as well as other indirect taxes.

He has led several projects and also has extensive experience in analysis and evaluation of tax impact in connection with new tax law. He has been involved in the implementation of tax controls and general advice in Panama. Also, he has assisted several clients in tax audits performed by the Tax Authorities in Panama, as well as tax compliance projects.

He is an active member of the Panamanian Institute of Certified Public Accountant, and has been President of Taxation Committee. Francisco speaks fluently Spanish and English.
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