

Panama proposal would tax offshore entities lacking economic substance

May 27, 2026

In brief

What happened?

The Ministry of Economy and Finance on April 30, 2026, introduced a bill to amend the Panamanian Tax Code. The bill would impose tax on certain foreign-source passive income earned by entities established or domiciled in Panama, and that belong to multinational groups that do not demonstrate sufficient economic substance in Panama.

The bill has not yet been approved by the Legislative Assembly and therefore has not completed the steps required to become law.

Why is it relevant?

This bill represents a significant change in Panama's tax framework, directly affecting multinational entities that use Panama as a regional platform. Under the bill, the regime would apply starting in the fiscal period after enactment. Panama's territorial tax system would remain in place; however, the bill would require entities that earn foreign passive income through Panama to show real activity and meet minimum economic substance requirements in Panama.

Actions to consider

Companies should undertake a comprehensive review of their Panama holding structures to assess exposure to the new regime, identify economic substance gaps, and define appropriate steps before the

law potentially enters into force.

In detail

Background

According to current and historical Panamanian tax law, which follows the territoriality principle, passive income (including dividends, royalties, interest, capital gains, or real estate income) generated by offshore companies has not been subject to tax in Panama. However, the government is considering new measures that would verify whether passive income from foreign sources obtained by entities established or domiciled in Panama and belonging to multinational groups has adequate economic substance in Panama. This aligns with efforts to document that activities are actually carried out within Panama.

Analysis

The initiative would introduce a structural change to the traditional principle of territoriality, aligning the Panamanian system with international standards on economic substance and combating structures without a real presence. This change could impact holding companies, investment entities, intangible companies, and regional structures established in Panama.

The project aims to (1) establish minimum economic substance requirements for entities in Panama belonging to multinational groups that receive passive income from foreign sources; (2) subject gross income to a 15% income tax when the entity is considered 'non-qualified'; and (3) provide the Panamanian Tax Authority (Dirección General de Ingresos, or DGI) with tools for auditing, controlling, and preventing abuse by these structures.

According to the draft, the regime would apply to the following passive income from foreign sources: dividends, interest, royalties, capital gains, income from real estate capital, and other passive income from movable capital, when derived from assets located or rights used outside of Panama. Such income would retain its non-taxable status only if the entity could demonstrate adequate economic substance.

A qualified entity would be one within a multinational group that demonstrates sufficient economic substance in Panama with respect to each asset generating passive income per tax period. Conversely, a non-qualified entity would be one that does not file its annual income tax return declaring its foreign passive income, does not meet the economic substance requirements, or does not provide the information required, or provides only partial information, to the DGI to demonstrate compliance with the economic substance requirements.

To be considered qualified, the entity would have to meet the following criteria simultaneously:

- adequate, qualified, and paid personnel in Panama and facilities in Panama, linked to the management of income-generating assets.
- strategic decision-making and risk-taking in Panama.
- appropriate operating costs and expenses incurred locally and directly related to the passive income-generating activity.

- demonstration of compliance for each tax period and for each income-generating asset.

Legislative developments

Different sectors participated in the bill's consultation period, which ended during the week of May 11. These sectors presented proposals and recommendations for the bill to the Economy and Finance Committee in the first debate stage.

Participants during the four days of consultation included public institutions, teachers, international taxation experts, representatives of various commercial, industrial, maritime, and professional associations from the private sector, as well as members of civil society.

Some of the main proposals include:

- changes in the tax base to tax the net income instead of the gross income of certain passive income generated by non-qualified entities; and
- exceptions for entities that, due to their characteristics, such as income thresholds, assets, or equity, proven tax residence in other jurisdictions, or the nature of their activities (maritime sector), should not be included within the scope of the bill. This proposal was notably accepted by the Economy and Finance Commission.

Some of the other proposals include:

- the proportionality of the sanction according to the degree of non-compliance (differentiating absolute non-compliance from imperfect but remediable non-compliance);
- the establishment of a remediation period;
- incompatibility of the obligation of economic substance and the presentation of income tax returns;
- characteristics of the outsourcing of compliance with economic substance;
- the need for timely regulation for the definition of clear and identifiable parameters without prejudice to the principle of tax legality; and
- the implementation of a longer adaptation period that allows entities to adapt adequately to the new obligations.

The Economy and Finance Committee concluded debating the proposals during the week of May 18 and issued new text incorporating some of the recommendations presented. This was approved in the first debate. During the week of May 25, the modified bill will be discussed in the second debate before the Legislative Branch.

Let's talk

For a deeper discussion of how this tax proposal might affect your business, please contact:

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