

Doing Business in Panama



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Contact Us in Panama

AVILA Y ASOCIADOS, S.A.

Urbanizacion Obarrio
Calle Abel Bravo y # 60
Duplex 4
0823-05540
Panama

Jorge Avila
Partner
Email: javila@pkfpanama.com

Website: www.pkf-central-america.com/panama

Tel: +507 2695703

Email: pkf@pkfpanama.com





Foreword

This PKF Doing Business in Panama publication provides an overview of the most important aspects of doing business in Panama and we trust it will be both informative and useful.

This guide was prepared with the purpose of providing a fair view of Panama's business environment, benefits and opportunities for foreign investors. It features basic information such as geography, population, weather, legal and economic environment, communications, transport and others. Our objective is to furnish investors with relevant information to develop business initiatives in our country.

A member firm of PKF International Limited network, our professionals have expertise in the following areas:

- Auditing
- Consulting
- Corporate services
- Business solutions
- Taxation
- Outsourcing
- Payroll

The content should not be used as a basis for action without further professional advice. We are willing to assist and support you in any matter of interest.



Demographic and Environmental Overview

A profile of Panama

Panama, officially the Republic of Panama, is a transcontinental country in Central America and South America, bordered by Costa Rica to the west, Colombia to the southeast, the Caribbean Sea to the north and the Pacific Ocean to the south. The capital and largest city is Panama City, a metropolitan area home to more than half of the country's 4,279,000 people.

Panama has an area of 75,517 km², is 12 nautical miles wide, has a coastline of 2,988.3 km and spans 80 km between the Atlantic and Pacific Ocean. The Panama Canal bisects the isthmus at its narrowest and lowest point, allowing passage from the Caribbean Sea to the Pacific Ocean. Panama is marked by a chain of mountains in the west, moderate hills in the interior and a low range on the east coast. There are extensive forests in the fertile Caribbean area.

Panama is divided into 10 provinces, three indigenous reserves classified as provinces and two more classified as municipalities.

Panama has a tropical climate. Temperatures are uniformly high, as is the relative humidity, and there is little seasonal variation. Rainy season is usually from April to December, and dry season from January to March.

Panama is a presidential representative democratic republic, whereby the President of Panama is both head of state and head of government, and of a multi-party system. Executive power is exercised by the government. Legislative power is vested in both the government and the National Assembly. The judiciary is independent of the executive and the legislature.

National elections for the executive and legislative branches take place every five years, with no option of re-election. Presidential and vice-presidential elections require a simple majority to be elected. Members of the judicial branch (justices) are appointed by the head of state. Panama's National Assembly is elected by proportional representation in fixed electoral districts.

The legal system is the Civil Law, based on the Napoleonic Code, in line with most Latin American countries.

Spanish is the official and dominant language. About 93% of the population speak Spanish as their first language. Many citizens who hold jobs at international levels or at business corporations speak both English and Spanish. About 14% of Panamanians speak English.

Economic summary

The economy of Panama is centered on a highly developed services sector, which represents more than 75% of gross domestic product (GDP). The Panama Canal and use of the US dollar have promoted the strengthening of a globally oriented services economy. The Panama Canal is essential to global trade and accounts for almost 10% of the country's GDP.

Panama's strategic location at the center of the Americas has always been one of the key advantages of doing business in or from Panama. The new Panama Canal creates a cluster of multiple industries and services in the maritime sector but also encompasses accountants, lawyers, bankers, custom brokers and other service providers.

Panama has a strong banking system with more than 80 local, regional and international banks. With total assets of the banking system representing 1.8 times the nominal GDP of the country, Panama has been a financial center for the principal financial corporations in Latin America and the world.

Other important components of the service economy are the Colon Free Trade Zone (CFZ), which is the second largest free port in the world, and the Trans-Panama Pipeline, which allows for the transport of crude oil between the Pacific and Atlantic coasts.

The new airport provides the infrastructure for an array of other services because of multiple connections to all the Americas and Europe, thus paving the way for the development of Panama as a regional corporate headquarters for multinational corporations. Panama has an extensive network of double taxation treaties for a number of key markets. The country is signatory to some 50 bilateral investment protection agreements, including with China, India and the US.

The license and registry of the Panama flag to merchant ships is another source of economic activity. Panama also has a large logistics and storage services sector, as well as a modern banking and insurance industry.





The agricultural sector has lost importance over the years, accounting for less than 10% of GDP today. The main cash crops produced in the country are bananas, coffee and sugar.

Services and exchange controls

Officially known as the Balboa, the currency of Panama has been pegged to the US dollar at parity since the country gained independence in 1903. Today, the US dollar is still the primary legal tender. While dollarization spurred the development of a strong external-facing services sector, Panama does not have a central bank and does not issue any paper currency to be put into circulation. Without the ability to implement its own monetary policy or exchange rate adjustments, it is difficult for the government to control inflationary pressures. In fact, the monetary stimulus policies that the US has introduced in recent years have produced direct currency inflows into Panama as well as higher commodity prices. With inflation trending above historically low levels, the Panamanian government has begun minting its own coins in an attempt to sustain public spending. However, circulation of coins in the domestic economy is more of a symbolic measure and will not really offset the challenges of dollarization.

Panama today

Panama has been one of the fastest growing economies in Latin America over the past decade, with real GDP expanding at an average rate of 8.4% from 2004 to 2013. Moreover, Panama performed relatively well during the global crisis, including 4% growth in 2009 when many other countries in the region suffered a contraction. The Panamanian economy accelerated in the following years, reaching double-digit growth rates in 2010 and 2011. GDP shrunk from 5.7% in 2015 to 3% in 2019.

Expansion of the Panama Canal has been a major source of economic activity since the project began in 2007. Estimated at a cost of over USD 5.5 billion, the construction of wider locks and deeper channels will allow for the passage of larger container freight ships, help the canal remain competitive in the realm of global trade and therefore sustain toll revenues.

Other large public spending infrastructure projects have also driven economic growth in recent years and solidified Panama's standing as a major logistical hub in the region. This includes the building of the metro line in Panama City, which was inaugurated in April 2014 and is the first in Central America, as well as a new metrobus system and improved highway network and enhancements to Tocumen International Airport.

Currently, the Panamanian government is in the planning and development phase of other significant infrastructure projects, such as the Fourth Bridge over the Canal and the third line of the Metro (which is already under construction).

In the private sector, the construction of a copper mine and natural gas plant in Colon have been successfully concluded.

The external sector is a crucial component of the Panamanian economy, and Panama has become increasingly integrated in the global trade system in recent years. Panama signed a free trade agreement with the US in 2012, which further boosted investment and trade flows. An association agreement with the European Union (EU) was signed in 2013. A free trade agreement was reached with Mexico in 2014, and in 2018 with China, although all projects with the Asian nation have been stopped by the current President's administration in 2021.

The Panamanian government has promoted economic growth over the past decade, largely through open market policies and by supporting free trade. Moreover, the government actively encourages foreign direct investment through tax regulation and by guaranteeing ease of business. There are incentives for multinational headquarters and businesses operating in the film industry, tourism, light manufacturing, renewable energy and reforestation, among others.

The economy likely remained downbeat in Q3 2020 given continuing domestic COVID-19 restrictions. Activity in the Panama Canal was down in the third quarter, which highlights that weak international trade continued to take its toll on the important transport sector, albeit to a lesser extent when compared to Q2 2020.



Moreover, a raft of domestic indicators paints a similar picture: fuel sales, cement sales and new car registrations were all down markedly in annual terms in Q3 2020, although again to a lesser extent than in Q2 2020, suggesting depressed domestic travel, construction activity and private consumption, respectively. Similarly, merchandise exports were down sharply in July-August 2020.

Consumer prices were down 0.4% from the previous month in July 2020, contrasting with June's 0.52% increase. The decline in economic activity softened at 17% in October 2020 but remains marked compared to September's 22.3% decline.

According to a preliminary estimate, GDP fell at a slower pace of 23.6% year-on-year in the third quarter 2020, above the 38.2% contraction recorded in the second quarter. Services output



fell 18.4% in the third quarter of 2020, marking a strong improvement from the second quarter's 29.9% contraction, with the key transportation sub-sector contracting at a slower pace, likely thanks to improved Panama Canal data as global economic activity recovered.

According to Focus Economics Consensus Forecast, as of October 2021, data showed that the economy surged in annual terms in the second quarter, after GDP fell in Q1 2021. Manufacturing, construction and mining output spearheaded the rebound, although overall growth benefited notably from a favorable base effect. Moving to Q3 2021, the recovery seemed to continue, despite the tightening of restrictions at the outset of the quarter. Economic activity still clocked healthy growth in July, albeit below Q2 2021's average, while data for July–August is upbeat: Both fuel

sales and new vehicle registrations were up notably. Meanwhile, entry rules for travelers were relaxed in September 2021, while domestic restrictions were eased in the same month amid an accelerating vaccination campaign. This bodes well for tourism and activity more broadly in the final month of the quarter and heading into Q4 2021.

After gaining pace this year, the economy should continue to grow markedly in 2022, driven by buoyant mining activity, returning tourism and higher traffic in the Panama Canal amid recovering world trade. That said, activity is not likely to reach pre-pandemic levels until 2023. Longer term, the G7's Build Back Better World infrastructure project poses an upside risk. Focus Economics Consensus Forecast panelists foresee the economy expanding 11.0% in 2021. For 2022, the economy is seen growing 6.4%, which is unchanged from last month's forecast.



Consumer Protection and Special Industries

Intellectual and industrial property rights

Panama's first Intellectual Property Law was enacted as Law No. 35 of 1996. It contains norms that protect inventions, utility models, industrial designs, trade secrets and trademarks of products and services, collective and certification marks, indications of source, appellation of origin, trade names and advertising slogans and signs.

Law No. 35 of 1996 provides 20 years of patent protection from the submission date of the application. Pharmaceutical patents are granted for 15 years, but can be renewed for an additional ten years, if the patent owner licenses a national company (with a minimum of 30% Panamanian ownership) to exploit the patent. It also provides specific protection for trade secrets.

In order to meet the requirements of the US-Panama Trade Promotion Agreement (TPA), Panama amended and updated Law No. 35 of 1996 through Laws No. 61, 63 and 64 of 2012. The latter allows officials to impose fines of up to USD 100,000 for copyright infringements without a trial or civil suit. Additionally, these laws also authorize the office of Intellectual Property of the Ministry of Commerce and Industry to impose larger fines and to act as the prosecutor's assistant in criminal law cases. Panamanian Customs can also act inside the free trade zones, when there is a suspicion that some merchandise might be in violation of copyright laws.

The TPA provides improved standards for the protection and enforcement of a broad range of intellectual property rights. Such improvements include state-of-the-art protection for digital products such as software, music, text and videos and stronger protections for patents, trademarks and test data, including an electronic system for the registration and maintenance of trademarks.

Panama has been a member of the World Intellectual Property Organization (WIPO) since 1997, and is a member of the Geneva Phonograms Convention, the Brussels or Satellite Convention, the Universal Copyright Convention, the Berne Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property and the International Convention for the Protection of Plant Varieties.

In addition, Panama was one of the first countries to ratify the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty. As an example, and due to these international treaties, Panama upgraded regulations on computer software and extended the intellectual property rights from 50 to 70 years.

Consumer and user protection

The Consumer Protection Law establishes the rights of any individual or entity who acquires, uses or consumes a particular good or service, as well as the obligations of any supplier to guarantee the rights of the consumer.

There are fundamental rights for the consumer, which can be grouped as follows:

- the right to receive products and services of quality, guaranteeing health, life, safety in consumption and meeting fundamental needs
- the right to truthful, adequate, clear, and complete information about the good or service offered
- the right to protection against misleading and abusive advertising
- the right to an effective assistance for the protection of rights and compensation for damages.

The Law also establishes obligations on suppliers to guarantee consumer rights; for example, any supplier is responsible for delivering truthful, clear and complete information of the goods or services offered to the consumer, and there is also an obligation for any company or commercial establishment to keep a book of claims or complaints available to the consumer.





Legal Framework for Business

Accounting regulations in Panama

In Panama, the Companies Law of 1927 establishes the types of legal companies, while the Code of Commerce of 1916 and subsequent amendments require companies to keep books of accounts and provide the basic legal framework for accounting.

The Law 57 of 1978 on the Accounting Profession authorizes the Technical Board of Accounting (JTC), an agency under the Ministry of Commerce and Industries, to set accounting and auditing standards. For this purpose, the JTC created the Commission of Financial Accounting Standards to recommend regulation regarding the accounting and auditing standards in Panama for all companies, aside from regulated companies. The Law No. 6 of 2005 requires the application of IFRS and IFRS for Small and Medium-sized Entities (SMEs) since 2006. For tax purposes, the tax authority requires IFRS and IFRS for SMEs through modification to the Tax Code of 1956 and amendments. The Law 57 of 1978 will be substitute by the Law 459, which is under discussion right now, and has not yet been approved by congress.

In addition, financial sector regulators—i.e., the Superintendent of Banks (SBP), Superintendence of Insurance and Reinsurance (SSRP) and the National Securities Commission (SMV)—are empowered to set sector-specific accounting rules for the companies they regulate. Listed companies and financial institutions are required to use IFRS or US Generally Accepted Accounting Principles, in accordance with the SBP Agreement No. 4 of 1999 and SMV Agreement No. 8 of 2000, respectively. Insurance companies are required to apply IFRS as per SSRP Law No. 12 of 2012.

The Tax Code requires mandatory statutory audits of companies that meet the following criteria: capital exceeding PAB 100,000 or with an annual sales or gross income greater than PAB 50,000. Audits of these companies must follow auditing standards applicable in Panama and signed by a Panamanian Certified Public Accountant. The JTC has adopted ISA for all mandatory audits, other than regulated companies, since 2006, in accordance with the Law 6 of 2005. Financial institutions are required to use ISA or US Generally Accepted Auditing Standards issued by the Auditing Standards Board of the American Institute of Certified Public Accountants, in accordance with the [SBP](#) Agreement No. 4 of 2010. Listed companies and insurance companies are required to use ISA in accordance with the SMV regulation and SSRP Law No. 12 of 2012.

Accounts controls in Panama statutory audits

There are no requirements for filing statutory audits in Panama.

Content of financial data to be published: Annual accounts

Companies regulated by the Superintendence of Securities Market, banks with general and international licenses, thrift companies operating in Panama, companies regulated by the Public Services Authority, insurance and reinsurance companies, companies subject to transfer pricing, companies located in the Colon Free Zone, and SEM (multinational service companies) are required to publicly disclose their annual financial statement, audited by independent auditors, and submit it to the authorities.

This information must be filed during each year's first quarter.

Legal audit limits

Companies regulated by the Superintendence of Securities Market, banks with general and international licenses, thrift companies operating in Panama, companies regulated by the Public Services Authority and insurance and reinsurance companies are required to have an annual financial statement audited by independent auditors and submitted to the authorities. Whether listed or not, if the capital of the taxpayer exceeds USD 100,000 or annual sales or gross income exceeds USD 50,000, an annual income tax return must be prepared and signed by a Panamanian certified public accountant and financial statements must be duly audited by a certified audit firm.

Setting up a company in Panama

The Panamanian legislation provides for various types of legal entities through which economic activities can be carried out in the country.

Specific requirements apply to incorporate a company, depending on its business structure. The different types of companies existing in Panama are as follows:

- Corporation ('Sociedad Anónima')

The Commercial Code (Law No. 2 of 1916) offers other types of associations or partnerships:

- General Partnerships ('Sociedades Colectivas')
- Simple Limited Partnerships ('Sociedad en Comandita Simple')
- Limited Liability Companies ('Sociedades de Responsabilidad Limitada')
- Joint-stock Partnerships ('Sociedad de Comandita por Acciones')
- Private Interest Foundations ('Fundaciones de Interes Privado')
- Limited Liability Entrepreneurship Companies ('Sociedades de Emprendimiento de Responsabilidad Limitada')

A corporation ('Sociedad Anónima') is the most widely used business entity in Panama, because it is flexible and versatile for both local and foreign investors.

Corporation

Corporations are governed by Law No. 32 of 1927, which is based on the General Corporation Laws of the State of Delaware, enacted in 1899.

Two or more persons of legal age (not necessarily Panamanian citizens or residents of the Republic of Panama) may form a corporation for any lawful purpose by subscribing in Panama or abroad, in any language, to the articles of incorporation.

Panamanian law requires three directors for corporations (president, secretary and treasurer). They can also act as officers, do not have to be shareholders and may be non-resident foreigners.

General Partnerships

In this association, partners' liabilities are unlimited, unless the partnership agreement states that a partner will be liable for a limited sum, which may never be lower than the contribution of the partnership.

Simple Limited Partnerships

They consist of general and limited partners. General partners share management responsibilities and are jointly and severally liable for the partnership's debts. Limited partners are liable only up to the amount of capital they have invested.

Limited Liability Companies

In this type of entity, the liability of partners is limited to the individual's capital participation.

Joint-stock Partnerships

Similar to simple limited partnerships, but with the partner's capital represented by shares.

Private Interest Foundations

Foundations used primarily for estate planning, which allows the transfer of assets of the deceased founder without the need to go to court. These entities are regulated by Law No. 25 of 1995.

Limited Liability Entrepreneurship Companies

The entities can only be constituted by two (2) individuals, and they cannot be part of another Limited Liability Entrepreneurship Company.

The minimum share capital is USD 500 and the maximum gross income is USD 1,000,000 per annum. If this gross income is exceeded, a Limited Liability Entrepreneurship Company will be required to convert into any other entity authorized under Panamanian law.

The legal entities outlined above must register in the Public Registry of Panama in order to attain full legal rights and powers to carry out their activities. The process involves filing a Public Deed, issued by a Panamanian Notary Public, and thorough minutes must be prepared by a Panamanian licensed lawyer.

Opening a branch

The requirements to register a branch of a foreign company in Panama according to Article 90 of Law 32 of 26 February 1927, are as follows:

- Copy of the articles of incorporation, bylaws and any modification, duly certified by apostille or legalized by the Consul of Panama.
- Certificate of existence and incorporation by the laws of the incorporation country duly certified by apostille or legalized by the Consul of Panama. The usual procedure is to obtain a certificate from the competent authorities of the place of registration. Then, the Panamanian Consul, based on the certification, will certify that the corporation is constituted and authorized as per the laws of the country of registration.

- Copy of the company financial statements duly certified by apostille or legalized by the Consul of Panama.
- A statement by the officer of the corporation indicating the part of the capital stock that is used or proposed to be used in businesses in Panama duly apostilled.
- A shareholders' or board of directors' minute authorizing the registration of the company in Panama, designating a legal representative or granting Power of Attorney and indicating who will be the Resident Agent. Where an LLC registers a branch, the only member of the LLC must issue the authorization.
- List of directors, officers and a Power of Attorney granted to the person that will represent the company in Panama. The law does not mention this requirement. However, it has been the Panama Public Register's practice to require this document.

Procedure

Once you provide the documents mentioned above, a local law firm will draft an incorporation act aimed at establishing a branch of your foreign company in Panama. A Public Notary will prepare a deed transcribing the act. The deed will be registered at the Mercantile Section of the Public Records.

Time Frame

The Public Record takes between five and ten business days to record the deed.

Cost

- The client must pay the annual franchise tax that is USD 300.
- The Public Record will also charge a fee. This fee will depend on social capital. We recommend using the standard social capital, which is USD 10,000.
- Notary fee depends on the number of pages of the deed.
- Fiscal stamps are USD 8 per page.

Resident Agent

The Resident Agent needs to be a Panamanian lawyer or law firm. The fee for being a Resident Agent is USD 250 per year.

Additional considerations

- The branch must have the same name as the parent company.
- The company will be registered in the same category as it is registered in the incorporation country. Therefore, if the company is a share company, it will be registered as a share company in Panama; if it is an LLC, it will be recorded in Panama as a limited company (SRL).
- All the documents issued in another country need to be certified by apostille or authenticated by the Panamanian authorities (consulate) in that country.
- All the documents in a different language than Spanish need to be translated by a Panamanian official translator.

Purchasing shares in an existing company

Companies are not required to notify any institution regarding the transfer of shares.

The transfer of shares from a Panamanian entity that obtains Panama-source income requires the buyer to withhold 5% of the purchase price for the tax authorities within a period of ten days. This is considered an advance payment of the seller's capital gains tax. The seller can declare this 5% as the total capital gains tax or, if the amount exceeds the normal rate of 10% of the real gain, the seller may claim a tax credit for the amount exceeded when filing the annual tax return. A Panamanian entity whose sole income is obtained from non-Panamanian sources (outside Panama) is exempt from capital gains tax.

The transfer of shares from a Panamanian entity that are registered with the National Securities Commission through an authorized stock exchange is exempt from paying capital gains tax even if the entity obtains gross Panama-source income.

[Purchasing real estate property in Panama](#)

There are no restrictions on the ownership of property by foreigners, except that Article 121 of the Panamanian Tax Code says that foreign persons, or Panamanian corporations with foreign ownership, cannot purchase property located less than ten kilometers from the borders, nor on islands under the jurisdiction of Panama. Foreigners may engage in commerce or industry without limitations.

It is advised that a good way to protect all rights as a foreigner holding real estate is through the establishment of a Panamanian corporation. This offers protection from frivolous legal proceedings or asset seizure in the foreigner's home country and has advantages under Panamanian law as well. Constitutionally, the government cannot seize private property unless it follows a procedure similar to the concept of eminent domain in the US. The owner receives fair market value for land and improvements.

The two most common alternatives used by foreigners are (1) to ensure that the property purchased is already titled and (2) to purchase a 'possession right'.

1. Titled Properties

The Public Registry Office (Registro Publico) keeps a record of all titled properties in all ten provinces of Panama. Information regarding titled properties is readily available through the Public Registry, and thus it is fairly simple to undertake preliminary due diligence.

The following are the steps necessary to successfully buy a titled property:

1. Perform complete due diligence of the property, including a complete title search, review of cadastral maps, verification of tax good standing of the land, verification of good standing in utility bills (water and sewage, electricity, telephone, etc.) as well as verification of any other special characteristic, limitation or encumbrance over the property.
2. Enter into a Promise to Purchase Agreement to secure the property, which will give the buyer time to properly execute the due diligence and to obtain financing. This agreement must be recorded in the Public Registry in order to affect third parties.
3. When due diligence has been completed, enter into a Purchase and Sale Agreement. It is important to include an indemnification clause in the event of hidden defects of the property.
4. Ownership is confirmed once the public deed containing an annotation regarding the change of ownership is registered at the Public Registry Office.
5. Generally, payment is not delivered to the seller until transfer of ownership has been registered. However, in some other cases the parties agree to appoint an escrow agent (lawyer or banker) to receive the funds under an escrow agreement, which states that payment will be made immediately upon presentation of the deed of transfer of ownership of the property, duly recorded at the Public Registry Office.

2. Possession Rights Properties (Derecho Possessorio)

Not all properties in Panama are subject to registry in the Public Registry Office. Many beach front properties, islands and real estate in special tourism zones such as Bocas del Toro and Portobelo are owned and managed by the national or local municipal governments, and only 'possession rights' are granted over these lands for a determined period of time.

Persons interested in investing in projects located in these restricted areas should be very careful to ensure that the award of the 'possession right' or 'limited ownership' is granted by the pertinent national or local municipal government authorities. It is important to verify the following:

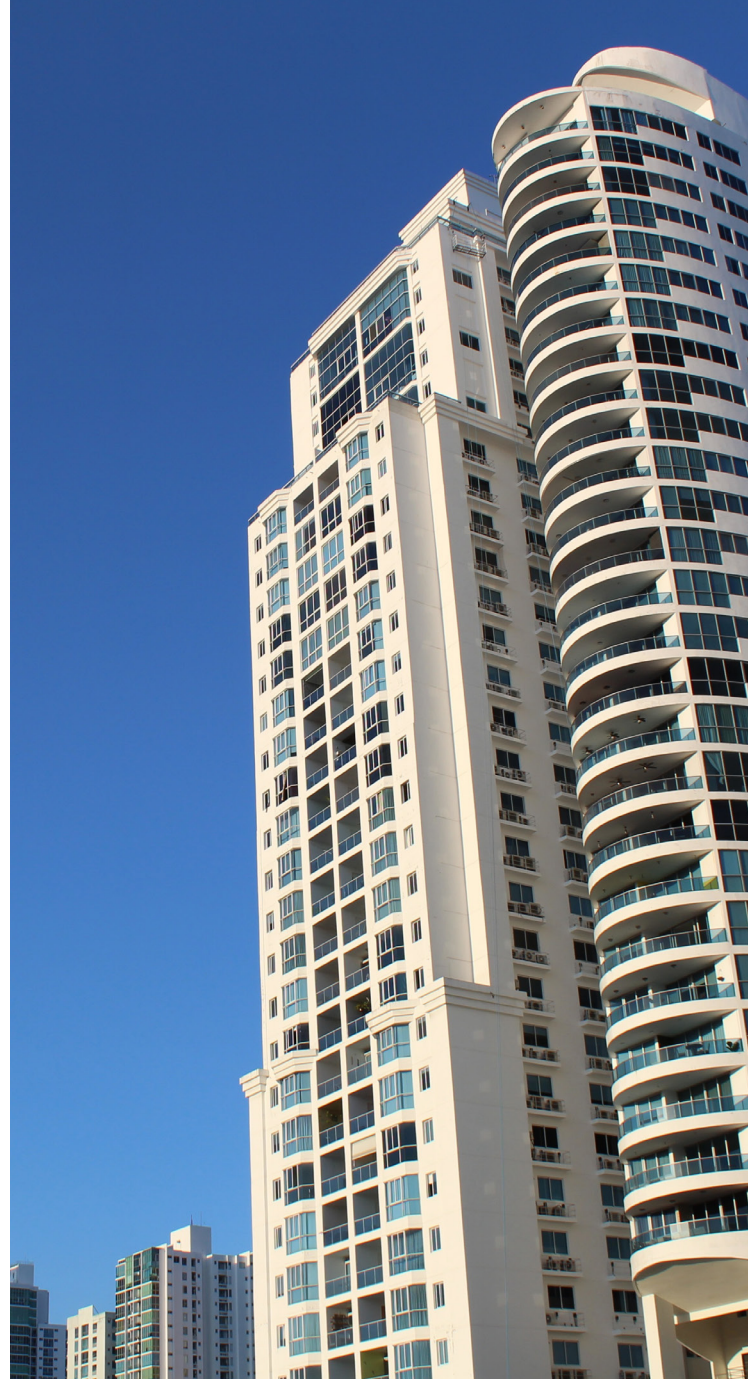
1. That the award of the piece of land has been issued by the corresponding authority.
2. That the award contains a complete description, including limits, boundaries, encumbrances and other important details of the land. A complete blueprint should have been drawn and approved.
3. That the activity to be undertaken by the purchaser is allowed, that is that the construction or building to be made is acceptable to the national or local government.
4. That the award be applicable for a period of time suitable for the purchaser.

Due to the lack of uniformity regarding the granting entity for 'possession rights', it is of the utmost importance to review each purchase individually and make recommendations especially for each land option. The length of the transaction process for the transfer of 'possession rights' will vary and can take up to six months.

Derecho Possessorio can refer to two situations:

- a) Government land occupied by peasants. After a length of time, the occupant can claim the occupied piece of land, and officially obtain the 'right of use' for an indeterminate period (it has been known to pass from one generation to another). This right can be sold.
- b) Unused idle private land occupied and worked by third parties for an extended period (at least five years), which can be claimed by the people who have worked the land. Establishing the Derecho Possessorio is a legal process that requires probes and witnesses. Conversely, owners must periodically inspect expanses of land or populate them with livestock or buildings, in order to establish proof of use and to discourage claims against the owner.

Transfer tax is levied at a flat rate of 2%. The tax base is the selling price of the property or the cadastral value of the property, whichever is higher.





Taxation

The Panama tax system

Panama's tax system is based on a territorial concept of income. Citizens and residents are taxed on income earned from Panamanian sources. Non-residents are taxed only on income from Panamanian sources, and the tax on any type of income paid to a non-resident must be withheld by the payer. Citizens, residents and non-residents are not taxed on exempt income (i.e. interest on Panamanian government securities, interest on savings accounts and time deposits maintained with banks established in Panama).

The taxable income includes all Panamanian-source income, such as salaries, compensations for personal services, income from investments, income from commercial, industrial or agricultural activities and expenses paid by an employer on behalf of an employee (e.g. educational expenses, rental payments and entertainment expenses).

Foreign-sourced income is not subject to income tax. Only income earned in the territory of Panama is subject to Panama income tax. Income received by persons or companies domiciled outside of Panama will be considered from a Panamanian source if it arises from services or actions that benefit persons or companies located in Panama, including fees, interest and royalties. The income tax withholding is at the regular rates for individuals or corporations but only on 50% of the amount of income received by the recipient and the company has to consider it as deductible.

Companies are classified according to the following categories:

- Income tax from Panamanian source
- Income tax not from Panamanian source. Such companies are not required to declare, and include:
 - companies that own a property
 - companies that do not operate in Panama
 - companies that do not have any income, or whose income is wholly from non-Panamanian sources.

Corporate Tax (IS)

Panama's income tax law affects aggregate and annual revenue from business activities conducted in Panama or from assets situated in the country when any of the causes of such revenue occur within the national

territory. The tax rate for companies is 25%. Companies in which the State has more than a 40% share pay 30% income tax.

The fiscal year of companies normally corresponds to the calendar year but it is allowable to have fiscal years ending on other dates if a request is made to the Tax Department authorities. Corporate tax returns and payments are due by the end of the third month following the end of the fiscal year. An extension of one additional month may be granted if requested. Extensions to file a tax return, however, do not affect the time for payment of tax. Corporations are required to prepay their estimated tax liability in three instalments, based on the income tax of the previous fiscal year.

Companies established as SEM companies (interoffice administrative services) and those based in Panama Pacifico are charged income tax at a rate between 2% and 5%.

Paragraph a) of Article 10 and 13 of Decree 170 of 1993 is modified with decree 354 of 9 July 2020 and clearly establishes foreign income and exempt income.

A tax rate of 25% is applied to the net taxable income on whichever is higher between:

1. the amount of the net taxable income (traditional calculation of deducting costs and expenses from gross taxable income)
2. the net taxable income that arises after deducting 95.33% from gross taxable income.

If, after applying the second alternative, the company incurs losses due to the payment of the tax or, if the effective rate of the income tax exceeds 25%, it can request the Tax Department not to apply the alternative calculation. Small companies that invoice less than USD 1,500,000 gross taxable income in the fiscal year are exempt from applying the alternative calculation.

Personal Income Tax (IRPF)

The rates set out below are applicable to any individual's net income earned:

Net income	Tax amount
Up to USD 11,000	0%
From USD 11,000 to USD 50,000	15% on the amount exceeding USD 11,000 up to USD 50,000
Over USD 50,000	USD 5,850 tax on the first USD 50,000, plus 25% on the amount exceeding USD 50,000

Non-Resident Income Tax (IRNR)

Residents and non-residents have to pay taxes on Panama-sourced income. Thus, offshore income (from activities outside the Panamanian territory) is not taxed under Panamanian Law. However, there are some exceptions.

Panamanian-source income is subject to taxation whether it is received by a resident or non-resident entity. According to Paragraph 2 of Article 694 of our Fiscal Code, the income derived from the following activities is not considered to be from a Panamanian source:

1. Billing, from an office established in Panama, the sale of goods or products for a greater amount than that for which said goods or products have been invoiced against the office established in Panama provided that said goods or products move only abroad.
2. Directing, from an office established in Panama, transactions that have effects abroad.

3. Distributing dividends or shares of legal persons, when such dividends or shares come from income not produced within the territory of the Republic of Panama, including income from activities mentioned in items (1) and (2) of this paragraph.

Wealth Tax (IP)

There are no net wealth or worth taxes in Panama.

Inheritance and Gift Tax (ISD)

There are no inheritance, estate or gift taxes in Panama.

Value Added Tax (VAT)

Many consumer services and goods are subject to a 7% value added tax. Alcoholic beverages and hotel room rentals have a 10% tax rate and cigarettes and tobacco products have a 15% tax rate. The following items are exempt from VAT:

- food (except restaurants that serve alcoholic beverages which are taxed)
- medicines and medical services
- house rentals with a contract period of more than six months. House rentals with contract periods of less than six months are subject to VAT.

Companies with purchases over USD 5,000,000 in the previous year become withholding agents and are required to retain 50% of VAT included in their vendors' bills. From 2017 institutions that manage credit and debit cards must withhold 50% of VAT included in sales of goods or services paid with credit and debit cards.

Companies established as SEM companies (interoffice administrative services) do not apply VAT.

The tax authorities have published a list of companies chosen as withholding agents.

Capital Transfer Tax and Stamp Duty (ITP and AJD)

On sales of real estate there are two taxes involved. One is a 2% transfer tax and the other is a 10% income tax on the net profit. The 2% transfer tax rate is applied on the higher of the sales price or the registered value of the property in the Public Registry plus a 5% surcharge for each complete calendar year for which the property has been held.

The 10% income tax is calculated on the net profit of the transaction. Net profit is calculated by deducting the cost of the property plus any related expenses from the sales price. The buyer of the real estate withholds 3% of the higher amount between the sale price or the cadastral value and remits it to the Tax Department. The seller calculates a 10% tax on the profit: if this amount is higher than the 3% withheld by the buyer, the seller can choose to consider the 3% as the definite tax. If 10% of the profit is lower than the 3% withheld by the buyer, the seller can request a reimbursement for the difference.

Income from the sale of securities is also taxable. The buyer withholds 5% of the sale price and remits it to the Tax Department. The seller calculates a 10% tax on the profit: if this is higher than the 5% withheld by the buyer, the seller can choose to consider the 5% as the definite tax. If 10% of the profit is lower than the 5% withheld by the buyer, the seller can request a reimbursement for the difference. Income from the sale of government securities and those issued by companies registered with the National Securities Commission is not taxable.

There is no requirement to withhold 5% in the following cases:

- alienation or transfer in favor of the State
- between relatives of the first degree of consanguinity and spouses
- by appropriation
- sale or liquidation (judicial or extrajudicial) of securities pursuant to an obligation subject to a guarantee trust
- alienation for consideration that has not generated a capital gain
- securities issued by the State, or those registered in the Securities Market Superintendence of Panama or another organized market.

Special tax and duties (IIEE)

The selective consumption tax of certain goods and services is levied on sugary drinks, wine, beer, liqueurs and tobacco products (such as cigarettes, cigars), among others.

The rate of tax varies depending on the product or service. Some common examples are set out below:

- soft drinks – 7%
- sugary drinks – 5%
- syrups and concentrates for the production of sugary drinks – 10%.

Withholding Tax

Services and fees paid or accrued to individuals and to resident corporations are not subject to income tax withholding, except payments of dividends distributed from retained earnings arising from Panamanian-source income. Service charges and fees, interest, commissions, royalties or technical assistance fees paid or accrued to foreign recipients are subject to withholding tax only if the local payer treats the amount as a deductible expense. The income tax withholding is at the regular rates for individuals or corporations but only on 50% of the amount of income received by the recipient. The withheld tax must be remitted to the authorities within ten days following the retention or registration, whichever occurs first.

Companies established as SEM companies (interoffice administrative services) must withhold a 2.5% tax on payments to third parties abroad.

The rate of withholding tax may vary according to the double tax treaties in force with several countries, as agreed in each treaty.

Prepaid Dividend Tax

Local corporations must pay a 4% complementary tax on each fiscal year's net taxed profit on behalf of their shareholders if no dividends are declared. This 4% is applied to dividend tax when dividends are declared. The rate for companies established in a Free Zone is 2%.

Franchise Tax

Foreign and domestic corporations registered in the Public Registry are subject to an annual tax of USD 300, regardless of whether they are doing business in Panama. There is a penalty of USD 50 for late payment per year for up to three years and, after three years of non-payment of the franchise tax, there is a penalty fee of USD 1,000 and legal fees to restore the company.

Annual License Tax

All industrial or commercial business, except those exempted by specific laws, are required to have a license to operate. Annual license tax is 2% of the company's net worth, including amounts owed to the foreign parent company or foreign affiliated companies. The tax is payable annually up to a maximum of USD 60,000. For companies established in a Free Zone, this tax is 0.05% of the company's net worth, including amounts owed to the foreign parent company or foreign affiliated companies. The tax is payable annually up to a maximum of USD 50,000.

Municipal Tax

Lucrative activities in Panama District must pay local tax upon gross income, calculated according to the company's category and activity.

Import duties

Customs duties or import duty and taxes are payable and need to be cleared when importing goods into Panama, either by a private individual or a commercial entity.

The valuation method used is CIF.

The import duty and taxes payable are calculated on the complete shipping value, which includes the value of the imported goods, the cost of freight and the cost of insurance. Imports are also subject to sales tax and IST (excise tax – selective consumption tax).

The duty and sales tax for Panama is summarized below:

Duty rate	Average duty rate	Sales tax (ST) or VAT	Threshold on goods
Varies	Varies	ST from 7% to 15% VAT = ST × (CIF + duty)	No duty and VAT for CIF value less than or equal to USD 100

Sales tax and other taxes are calculated on the sum of the CIF value and applicable duty.

The duty rates are provided by the Panamanian Customs and Tariffs Office and customs duties may only be assessed by authorized customs brokers.

Extra taxes and customs fees when importing

IST is applied to goods (e.g. jewelry, expensive automobiles, guns, tobacco, alcoholic beverages) and services (e.g. mobile, cable TV, satellite TV) that are considered as non-essential. The rates vary between 5% on soft drinks to 100% on tobacco products.

Tax on insurance premiums

Insurance companies pay to the National Treasury a tax of 2% on gross premiums they receive in respect of insurance policies issued in the country on risks located in Panama.

Incentives

The following incentives are available to qualifying industries and corporations:

- a) Companies operating in the Colon Free Zone, or any other Free Zone in the country, are tax-exempt on profit derived from sales from Free Zone to foreign countries.

- b) Companies operating in ‘Ciudad del Saber’ (City of Knowledge) and ‘Panamá Pacífico’ (Pacific Panama) are exempt from income tax, import duties and VAT. Dividend tax of 10% or 5% applies when dividends are declared.
- c) For ‘small business’ companies, income tax is calculated using a combination of the personal tax rate and corporate tax rate. Companies are considered small provided they:
 1. are not related or affiliated to other companies;
 2. are not a result of the fractionalization of other corporations;
 3. have an annual gross income of less than USD 200,000; and,
 4. have shareholders who are individual persons.
- d) Financial entities (including savings and loans associations or any other legal entity that previously registered with the Tax Authorities and whose commercial line of business is that of granting mortgage loans or engaging in construction and that meet the requirements and formalities provided for) may benefit from the tax regime called ‘Preferential Mortgage Loans’.
 - The so-called preferential portion may not exceed 4% in housing loans, whose value registered at the time of financing is greater than PAB 40,000 (USD 40,000) and does not exceed PAB 80,000 (USD 80,000).
 - The preferential portion in housing loans, whose value registered at the time of financing is greater than PAB 80,000 (USD 80,000) and does not exceed PAB 120,000 (USD 120,000), shall be 2%. The Preferential Interest Law is amended by Executive Decree 554 of May 2019, where the benefit is extended to all properties with a registered value of less than USD 180,000.
 - Pursuant to Law 94 of 2019, the threshold for mortgage loans with preferential interest is increased from USD 120,000 to USD 180,000. Likewise, it is exempt from the payment of new real estate transfer tax that occurs within the first five years after the issuance of the occupancy permit, related to construction permits issued between July 2016 and July 2019 or whose occupancy permit was issued before June 2022.

Transfer Pricing and Related Party Transactions

There is a transfer pricing system for the import and export of goods, services and rights with non-resident related parties. These prices are based on the following methods: comparative independent price method, resale price less profit method, production cost plus profit method, profit-split method or the transaction net margin method.

The authorities require a study of transfer pricing with the chosen method according to the agreements between companies and also the annual presentation of a declaration of transactions with related parties.

The study and the transfer pricing report apply to all types of companies as follows:

- Entities operating in a special area that carry out transactions with related parties regardless of where they are located and regardless of whether these operations affect their tax base.
- Natural or legal persons established in Panama who carry out transactions with related parties operating in a special economic area, if such operations affect their tax base.

Transactions between related parties are treated normally as long as an ‘arm’s length’ basis is used.

Transactions with related parties are shown individually in the income tax return. For the purposes of paying the annual operations notice tax, the amount owed to related parties abroad is not reduced as obligations, causing an increase in this tax.

Treaty and Non-Treaty Withholding Tax Rates

Panamanian companies or individuals that apply the withholding tax rates indicated in the treaties must first notify this in writing to the Tax Department.

	Dividends ¹ (%)	Interest ² (%)	Royalties ³ (%)	Service fees (%)
Treaty countries:				
Barbados	5 / 7.5	5 / 7.5	7.5	7.5
Czech Republic	10	5 / 10	10	0
France	5 / 15	5	5	0
Ireland	5	5	5	0
Israel	5 / 15	15	15	0
Italy	5 / 10	5 / 10	10	10
Korea	5 / 15	5	3 / 10	15
Luxembourg	5 / 15	5	5	5
Mexico	5 / 7.5	5 / 10	10	12.5
Netherlands	15	5	5	15
Portugal	10 / 15	10	10	10
Qatar	6	6	6	15
Singapore	4 / 5	5	5	15
Spain	5 / 10	5	5	7.5
United Arab Emirates	5	5	5	0
United Kingdom	15	5	5	0
Vietnam	5 / 7 / 12	10	10	7.5

Notes:

1. The lower rate applies to dividends paid to foreign corporations that own a particular percentage of share capital.
2. The lower rate applies to interest paid to foreign banks and the higher rate applies to others.
3. The lower rate applies to royalties paid for the use of commercial, industrial and scientific equipment. The higher rate applies to other royalties paid.



Labor Law

[An outline of employment law](#)

Labor and employment in Panama are governed by [the Labor Code](#). This code was adopted through Cabinet Decree No. 152 of March 1971, reformed by Law No. 44 of August 1995, and it specifies norms to regularize labor.

While a Panamanian can be hired without a written contract, this is not recommended. This is because under Panama's labor law the employee's version of events in dispute of an oral contract will be presumed correct unless the employer can produce solid evidence to contradict the employee's version.

Written contracts detail the job title, employee's duties and responsibilities along with the employer's obligations. Three copies of a written employment contract will be required as one is for the employer, the second for the employee and the third is filed with the Ministry of Labor.

Use a Panama law firm to draw up the written contracts for employees in order to avoid making costly mistakes which can end up costing the employer a lot of money.

[Hours and pay regulations](#)

Panama labor law specifies that daytime workers are employed between 6 am and 6 pm while night employees work between 6 pm and 6 am. While an employee can work during the day and night shift, if an individual works for three or more hours during the night shift, they are considered a night-time employee who will earn more than a daytime employee.

The maximum shift for a daytime employee is eight hours, but seven hours for a night-time worker. The daytime work week maximum is 48 hours (most work a 44-hour week). The night shift works a maximum of 42 hours per week.

Overtime is charged for longer than the maximum daily or weekly hours. An additional charge of 25% over the hourly wage is paid for day workers and 75% for night workers.

Wages are subject to income tax, social security tax and an education fund. After the first week, employers must withhold these taxes and fund from employee salaries. The government revenue office has charts showing what percentages are required to be withheld. All withholdings from the prior month are required to be paid into the National Treasury through the Social Security Administration by the 15th of the month.

Wages are subject to income tax. The salary, overtime, bonuses and commissions income up to USD 11,000 per year is exempt from tax. Tax at 15% is applied to wages from USD 11,000.01 to USD 50,000 and a rate of 25% is applied to wages above USD 50,000.

The Representation Expense is considered another form of salary payment, but a social security levy applies at a rate of 9.75%. Income tax is applied at a rate of 10% up to USD 25,000 and 15% to the surplus.

Annual leave

An employee is entitled to 30 days of paid and rested vacation for every 11 months worked.

Minimum wage

There is no such thing as an equal minimum wage for all economic activities in Panama.

According to labor laws in Panama, the minimum wage depends on the type of activity and size of the business. There are 37 different classifications for minimum wages between regions.

The most common commercial activities and their respective wages include:

Commercial activity	Minimum wage (USD per hour)
Agriculture and animal breeding	1.91
Construction	3.24
Wholesale and retail for small to medium-sized enterprises (SME)	2.27
Wholesale and retail for big companies	2.81
Supermarkets with five or more branches	2.88
Colon Free Trade Zone	3.20
Small-sized hotels	2.28
Big-sized hotels	2.75
Resort with franchises	2.88
Small-sized restaurants	2.22
Big-sized restaurants	2.88

Other benefits

Every employee receives a bonus known as the '13th month' which is one month's wages annually. It is paid in three equal installments on the 15th of April, August and December.

Panama's worker's comp pays for all accidents and sickness at the workplace. It is administered by Panama's Social Security System. Employers pay between 0.98% and 5.6% into the worker's comp system with the rate depending upon the risks the employment creates and the salary. This system protects the employer from civil lawsuits by injured employees. The only exception is where an occupational hazard was created due to the employer's negligence, resulting in the injury. Unless it is a permanent disability the worker can resume working after recovering.

Recruitment

There are no special or relevant official policies effective in Panama in respect of recruitment. However, under Panamanian labor law, only 10% of a business workforce can be filled by foreign workers. If foreign individuals are considered specialized, technicians or trusted individuals, the percentage increases to 15%.

Standard regulations for employment contracts and terminating employment

Depending on the employer's needs there are different types of employment contracts in Panama, including:

1. contract for a maximum defined time of 11 months for vacations, licenses or season
2. indefinite term contract
3. contract for specific work (construction)

Panama allows 4 methods for terminating employment:

1. employee quits
2. employment contract time period terminates
3. by mutual agreement of employer and employee
4. employer dismisses the employee.

The first three methods are self-explanatory. Dismissing an employee is easy during the first two years of employment. The dismissal process requires the employer to give the employee a written dismissal notice at least 30 days prior or pay at least 30 days' salary plus an 'indemnification for unjust dismissal' which is equivalent to 3.4 weeks' pay for every employment year.

Employees who have worked for more than two years may only be dismissed for 'just cause' which is defined under Panama's Labor Code and lists 16 just causes. Indemnification is exempt for employees dismissed for just cause.

Visas and work and residence permits

Panama welcomes the migration of individuals for business purposes. However, legal advice should be sought, given that specific legislation governs foreign employees working in Panama.

Visitors to Panama require a visa unless they are citizens of one of the eligible countries such that they do not require a visa for up to 180 days. All visitors must hold a passport valid for three months.

All foreign nationals need a passport that is valid for at least three months from the date of entry. Tourists must also be able to prove that they have at least USD 500—a bank statement, travelers check or a credit card will usually suffice. Finally, all travelers entering Panama must have a return or onward ticket out of the country.

Panama divides tourists into two groups; those that need a tourist visa and those that only need a passport.

Citizens of the following countries only need a passport to enter Panama: Argentina, Australia, Austria, Belgium, Canada, Chile, Colombia, Costa Rica, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovakia, South Korea, Spain, Sweden, Switzerland, Singapore, Taiwan and the US. It is important to note, however, that this list can change.

There are two types of visa for Panama: 'stamped visas' and 'authorized visas'.

The so-called 'stamped visas' allow some travelers to enter Panama several times throughout the year. This type of visa is only available through a Panamanian embassy or consulate, and the Panamanian authorities decide the length of the stay, which is usually 30 days per visit. Anyone who is eligible to visit Panama on a tourist card can apply for a stamped visa instead, although citizens of some countries are required to have a stamped visa. These countries include the Dominican Republic, Ecuador, Georgia, Peru, Russia, Ukraine, Vietnam and Zimbabwe. As above, it should be noted that this list is subject to change.

Citizens of some countries are required to have an 'authorized visa', the most restrictive type of tourist visa. Like the stamped visa, this kind is only available through a Panamanian consulate or embassy. The officials will choose to either approve or decline the visa application and will determine the length of stay. The majority of countries on this list are in the Middle East, Asia, Africa or eastern Europe. These include Bangladesh, Cuba, Haiti, India, Pakistan, China and South Africa, although the list is subject to change.

A Panama work permit is required for every foreigner from any country who wishes to work in Panama. Work permits are processed via the Panama Ministry of Labor (Trabajo) in Panama City.

In order for the Ministry of Labor to issue a work permit, the applicant must qualify under certain labor law.

For example, domestic workers law allows a Panamanian citizen or a Panama resident to hire a foreigner to work as a domestic worker. In this case, a foreign domestic worker can apply and receive their work permit from the Ministry of Labor (Trabajo).

If you are not a Panamanian citizen and wish to reside and work in Panama, you need to have two types of document:

1. Panama residency card
2. Panama work permit card

A Panama residency card can be processed and obtained via the Panama Immigration office, while a Panama work permit must be obtained via the





Panama Ministry of Labor. In most cases, it is first necessary to apply for and obtain a Panama residency card before applying for a work permit. However, in some circumstances, it is possible to apply for a Panama work permit prior to obtaining a residency card.

Either way, representation by a Panamanian lawyer is required in order to get a Panama work permit.

Social Security

Social security system

The Social Security System in Panama is run by the Ministry of Social Development (Ministerio de Desarrollo Social - MIDES). The Social Security Office is the public institution in charge of the administration of national insurance programs for pensions, health, unemployment and labor accidents and injuries.

Coverage

The social insurance system applies to both the private and public sectors. Contributions are paid by both employees and employers.

Self-employed workers can choose to make voluntary contributions. Foreigners working for a company based in Panama are also covered.

Contributions

Social security

Panamanians and foreigners are required to contribute to the Social Security System. Employers contribute 12.25% with employees contributing 9.75% starting from 1 January 2013.

Educational security

Employers contribute 1.5% with employees contributing 1.25%.

Benefits

The benefits offered by the Social Security System include:

1. dental, medical and hospital coverage
2. disability pay
3. maternity leave

4. worker's comp
5. retirement pensions
6. death benefits
7. funeral funding.

Female employees

Panama's Labor Code has provisions protecting female employees. Pregnant women cannot be dismissed without good reasons and court approval. Paid maternity leave is available for up to six weeks before the child is born and then for eight weeks afterwards. There is a minimum 14 weeks' rest period. A female employee can only be fired within the first year after she returns for good reasons and with court approval.

Seniority bonus (Prima de Antigüedad)

Indefinite period employees are paid a Seniority Bonus when their employment is terminated. The bonus is calculated as one week's salary for every year of employment. A severance fund is created to pay this bonus. Employers having five or fewer employees are exempt from participating in this fund unless they are in the insurance, financial or real estate business. The contributions are deductible from income taxes.

Prevention of occupational hazards

There is no specific body established by law, but the Social Security Fund, through its Occupational Health Program, issues standards and technical guides on the prevention of occupational hazards and informs users about technical measures to be taken in order to prevent occupational accidents and diseases.

1. Social Security Fund - Occupational Health Program

The *General regulations* were adopted in 2009 and the specific *Regulations in the construction sector* in 2008, implementing the ILO Convention No. 167. The Labor Code contains a full *Book on OSH and Occupational Hazards*. The Social Security Fund issues technical guides aimed at preventing occupational accidents and diseases.

Further information can be found online:

1. [Labor Code, 2 April 1972](#)
2. [General regulation on prevention of occupational hazards and safety and health at work](#)
3. www.ilo.org/safework/countries/americas/panama/lang--en/index.htm



E-business Legal Framework

Civil and commercial regulations

The e-commerce bill was signed into Law 43 on 31 July 2001. It was the first of its kind to be implemented in Central America. This Law represents an advance for the legal recognition of electronic documents and signatures, which are elements necessary to increase confidence in transactions conducted electronically. Its provisions on electronic documents are loosely based on the United Nations Commission on International Trade Law (UNCITRAL) Draft E-commerce Law.

The bill establishes a certification procedure and penalizes the non-compliance of contracts. It also envisions the creation of an e-commerce directorate at the Ministry of Commerce and Industry, which will be responsible for authorizing certification entities.

The Law 51 of 22 July 2008 establishes that those companies that provide commercial services through the internet may register voluntarily and free of charge before the General Directorate of Electronic Commerce (DGCE). Companies selling goods or services via the internet do not require prior approval.

Law 81 of 26 March 2019, published in Official Gazette 28743-A of 29 March 2019 on the Protection of Personal Data ('Law 81') was enacted. This law became effective on 29 March 2021.

The Information Society Services and E-Commerce Act (LSSI)

Not applicable to Panama.

Protection of personal data

Law 81 of 26 March 2019 aims to establish the principles, rights, obligations and procedures governing the protection of personal data, considering their interrelationship with the private life and other fundamental rights and freedoms of citizens, by natural or legal persons, public or private law, profit or not, who treat personal data under the terms provided in this Law.

Law 81 defines a series of terms relating to data protection and which are included in Law 81. Among the most important are:

Sensitive data: Data that refers to the intimate sphere of the holder, or whose improper use may give rise to discrimination or entail a serious risk for the holder. This includes, but is not limited to: personal data that may reveal aspects such as racial or ethnic origin; religious, philosophical and moral beliefs or convictions; trade

union membership; political opinions; data relating to health, life, sexual preference or orientation; and genetic data or biometric data that are subject to regulation and aimed at univocally identifying a natural person.

Personal data: Any information concerning natural persons which identifies them or makes them identifiable.

Data processing: Any operation or set of operations, or technical procedures, automated or not, that allows to collect, store, record, organize, elaborate, select, extract, confront, interconnect, associate, dissociate, communicate, yield, exchange, transfer, transmit or cancel data, or use it in any other way.

Data controller: Natural or legal person, under public or private law, whether for profit or not, who is responsible for decisions relating to the processing of data and who determines the purposes, means and scope, as well as issues related to it.

Database custodian: Natural or legal person, of public or private law, for profit or not, acting in the name and on behalf of the data controller for the processing of data and who is entrusted with the custody and conservation of the database.

Confidential data: Data that by its nature should not be known to the public or to unauthorized third parties, including data protected by law, by confidentiality or non-disclosure agreements, in order to safeguard information. In the case of the Public Administration, this means data for which processing is limited for the purposes of the Administration or, if the express consent of the owner is obtained, notwithstanding the provisions of special laws or regulations that develop the data. Confidential data will always be subject to restricted access.

Scope of application: Law 81 applies to databases located in the territory of the Republic of Panama, which store or contain personal data of nationals or foreigners and also when the person responsible for processing the data is domiciled in the country.

Databases of subjects governed by special laws (for example, banking, insurance) are excluded from the Law, provided that these special laws or regulations establish minimum technical standards necessary for the proper protection and processing of personal data, as established by Law 81.

Intellectual and industrial property rights and domain names

Panama has several laws protecting intellectual property:

Panama patents

Commercial products which are new and innovative inventions applied to industries can apply for Panama patents. This includes obtaining patents for unique processes and special uses which can be sold as commercial products, like software. On the other hand, business or scientific principles or theories, therapeutic or surgical and diagnostic methods cannot obtain Panama patents.

Panama utility model

A Panama 'utility model' protects in a different way than a patent. While this protection is similar to a Panama patent, it has less rigorous requirements to qualify but only has a ten-year protection period. The only thing a Panama utility model needs to prove to be accepted is that it is new and applicable for industrial use.

Industrial designs

Industrial designs obtain automatic protection for two years once revealed which prevents others from copying or using similar designs. By registering the design with the government, inventors receive ten years' protection with a five-year extension.

Panama trademark

A Panama trademark for services or products is available by applying to the Panama government. Protection of the business logo and trade name is included.

Licensing

Registered Panama trade names and Panama trademarks can be licensed to third parties. If the original license allows, sublicenses can be granted.

Panama copyright

As soon as an intellectual work is created, Panama copyright protection will occur immediately.

Panama copyright protects works of art, photographs, computer programs, audiovisual, educational or scientific works, architectural renderings, literary works, folklore and websites.

Copyright authors are considered to be the original writer or creator. Panama's Ministry of Education permits copyrights remaining in effect during the creator's lifetime plus 50 years. Written commercial rights for all copyrighted work can be allowed to third parties.

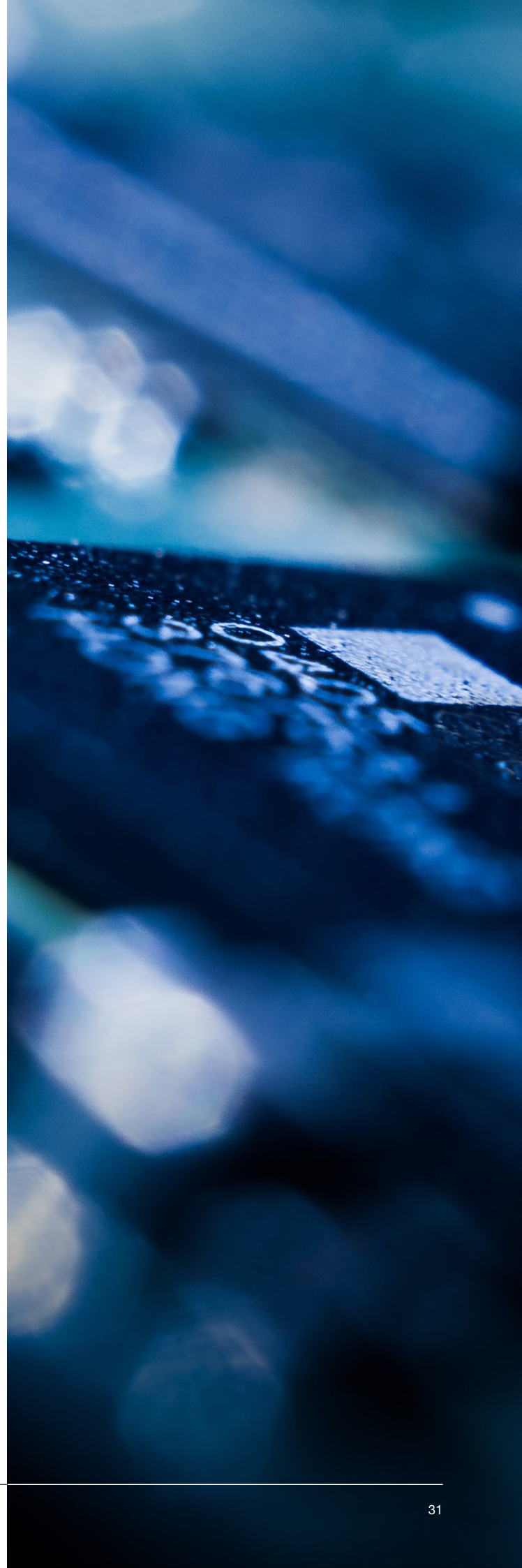
Panama intellectual property registration

Copyrights, trademarks, trade names, patents, industrial designs and utility models can also be registered at the Panama Customs Office and the Colon Free Trade Zone. This registration allows government representatives to examine and confiscate merchandise suspected of violating these rights.

Internet

The Nic-Panama (PANNET) registers internet domain names. Nic-Panama is administered by the Technological University of Panama. Domain names must be renewed every year. Panama's country code is '.pa'.

In conclusion, Panama's patent, trademarks and copyright laws are similar to those found in the US and Europe.



Appendix

Main reference websites

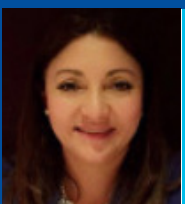
Agency or Resource	Website
Focus Economics	www.focus-economics.com/countries/panama
Technical Board of Accounting	www.mici.gob.pa/comercio-interior/jtc
Public Registry	www.rp.gob.pa
Ministry of Labor (MITRADEL)	www.mitradel.gob.pa
Embassy of Panama	www.embassyofpanama.org
Ministry of Social Development (MIDES)	www.mides.gob.pa
Labor Code	www.css.gob.pa
Ministry of Commerce and Industry (MICI)	www.mici.gob.pa
Autoridad Nacional de Aduanas	www.ana.gob.pa
NIC Panama	www.nic.pa

Author



Jorge Avila
Director and Managing Partner

E: javila@pkfpanama.com



Carmen Gonzalez
Tax Partner

E: cgonzalez@pkfpanama.com





right people
right size
right solutions

PKF International Ltd.

Studio 215-216, Great Western Studios, 65 Alfred Road, London, W2 5EU, United Kingdom
Telephone: +44 20 3691 2500

www.pkf.com

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