


# compendium | 2007

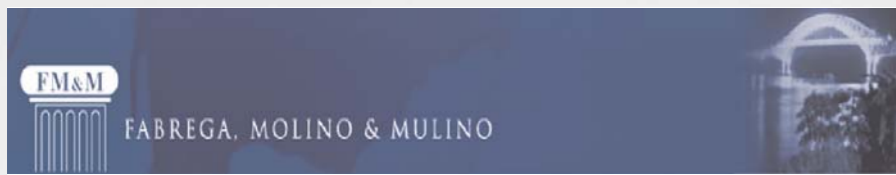


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**Address:** Samuel Lewis Avenue & 53 Street Omega Building  
P.O. Box 0816-0074  
Panama 5, Panama  
**Tel:** +507-301-6600  
**Fax:** +501-301-6606  
**Email:** fmm@fmm.com.pa  
**Web:** www.fmm.com.pa

**Fabrega, Molino & Mulino** is one of Panama's leading law firms, with an established tradition of excellence provided by the efficiency and quality of its services. Correspondent offices in British Virgin Islands (B.V.I.) and the main cities of the world keep us alert on the needs of our clients and ready to provide an important range of legal services. We operate particularly in the Asia-Pacific Region, the United States, Europe, Caribbean, Central and South America.

Our distinguished clientele includes local and international banks, manufacturing and international trading companies, shipowners and agents, as well as individuals with significant commercial interests. With partners, associates and qualified personnel, Fabrega, Molino & Mulino can offer superior legal services.

The firm is a member of:

The Panama Chamber of Commerce, Industry and Agriculture, the American Chamber of Commerce (AMCHAM) and co-founder of the Panama chapter of the International Chamber of Commerce (ICC).

### **Languages:**

Spanish, English, French.

Fábrega Molino & Mulino practices in the following areas of law:

Admiralty, Administrative Law, Arbitration, Antitrust, Trade Regulation and Competition Law, Asset Recovery, Asset Protection, Aviation Law, Commercial, Bank Formation, Banking Law, Bankruptcy, Captive Insurance, Civil Law, Commercial Financial Services, Communications Law, Company Commercial Law; Company Formation, Company Registration; Condominium Conversions, Contract, Copyright, Corporate, Governance, Corporate Law, Finance, Government Contracts, Immigration, Insurance, Intellectual Property, International Law, International Business Transactions, International Financial Services, International Trade, International Trademark Registration, Internet Law, Investments, Liquidations, Limited Liability Companies, Litigation, Loan Agreements/Financing, Media Law, Mergers and Acquisitions, Mining, Mortgage Banking Law, Nonprofit and Charitable Organizations, Offshore Company Law, Organization and Management of Offshore Companies, Offshore General Practice, Offshore Mutual Fund Structures, Patents, Pharmaceutical Patents Registration, Piracy, Private Interest Foundations, Privatizations, Real Estate, Securities, Securitization, Ship Arrest, Ship Registration, Taxation, Tax-Exempt Organizations, Technology and Science, Trademark,

Trademark Litigation, Trusts, Trusts and Estates, Wills and Probate.

Our experience in other areas also allows us to advise on assignments and holding of intellectual property, in order to structure their ownership for collateralization, asset protection and other business reorganization purposes.

With this brief summary of services that our law firm can bring to your company, we stay at your disposition in case you might require any of our legal services.

For more information, please visit our web page [www.fmm.com.pa](http://www.fmm.com.pa) or write us at [fmm@fmm.com.pa](mailto:fmm@fmm.com.pa)

Juan Pablo Fábrega  
[juanpa@fmm.com.pa](mailto:juanpa@fmm.com.pa)  
[www.fmm.com.pa](http://www.fmm.com.pa)

Gretel Ciniglio  
[gciniglio@fmm.com.pa](mailto:gciniglio@fmm.com.pa)  
[www.fmm.com.pa](http://www.fmm.com.pa)

Fanny Evans  
[fevans@fmm.com.pa](mailto:fevans@fmm.com.pa)  
[www.fmm.com.pa](http://www.fmm.com.pa)



Fanny Evans  
fevans@fmm.com.pa  
www.fmm.com.pa

Farah Molino  
fmolino@fmm.com.pa  
www.fmm.com.pa

## Panamanian corporations

Panamanian Corporations are created under the Law 32 of 1927, and since its enactment, has been widely used by the international financial community due to the multiple advantages and benefits that these corporations offer in the achievement of offshore operations, among other purposes, as well as for the freedom, flexibility and ease in their handling. Law 32 has been used as a model for many other jurisdictions and offers a flexible corporate structure, provides investor privacy and ensures the legal framework to conduct legitimate business activities in the international arena.

Panamanian corporations are chartered mainly to operate and carry out commercial and industrial activities; acquire properties; limit the personal liability in the performance of business transactions that imply risks, or to structure the payment of taxes in foreign jurisdictions on profits from commercial transactions. Thus, Panamanian corporations buy yachts in Mediterranean and oil tankers in Asia, own bank accounts in Switzerland and Miami, buy merchandise in the Far East and set up trusts over properties located in Egypt or London.

With these examples we want to emphasize the multiple uses given to Panamanian corporations and their acceptance by banks, investors and governments in all parts of the world. Such success is demonstrated by the fact that more than 350,000 corporations are currently registered and active, and their owners and beneficiaries are, for their great part, non-resident, foreign citizens, that do not conduct any commercial transactions in Panama.

### Acquisition

Panama's law on corporation is very liberal and flexible. To acquire a corporation it is not necessary to come over to Panama. It does not have complex requirements or formalities for the organization of corporations. The formation procedure for a corporation is very swift and simple. Two individuals, of any nationality and not having to be domiciled in Panama, can subscribe in any language the articles of incorporation, which should be acknowledged by public deed before a Notary Public in Panama. It is enough to provide by mail, telex or fax the required information by the attorney. For us, the incorporation of a corporation takes less than five days. For reasons of convenience, it is feasible to acquire off-the-shelf corporations; which have been previously incorporated to have in stock, but that have never operated.

### Directors and Officers

A minimum of three directors is required. The names and addresses of these directors is part of the public record, therefore our firm is in capacity of offering the services of "nominee Director" and of "nominee Officer" who serve as "nominal" members of the Board, which would meet

and adopt resolutions under written instructions of the client. This means that covering a yearly cost; we gave the corporation management service for clients who wish to preserve the privacy of their acts. The shareholder is not liable for the obligations of the corporation. The corporation can belong to only one person. One individual or corporation can be the owner of all shares, or have the majority control of the corporation. Additionally, a corporation can be shareholder of another corporation.

## Capitalization

The law does not require a minimum corporate capital for the chartering of a corporation, or for its further operation or carrying out of its objectives. Neither it is required that the corporate capital be totally paid up when shares are registered in a shareholder's name. Actually, the corporate capital is only important for inscription purposes, since it serves as the basis for the calculation and payment of the registration fees of the articles of incorporation with the Public Registry. Therefore, the amount of corporate capital set out for this type of corporations is that which pays the lowest inscription fee to the Public Registry.

## Shares

### i. Par or Non Par Value Shares:

The capital of a corporation can be stated in any type of currency, represented, in shares with par or non par value. In the former case, the par value is set out in the articles of incorporation. In the latter, the value or price of the shares is determined by the Board of Directors at the moment of issuing. The issuing of the shares can be paid by the shareholders either in cash or by providing works, services or goods of any kind to the company.

### ii. Bearer Shares

The law allows that the shares be issued in bearer form, in which case the subscriber or shareholder will have to pay the company for the full value thereof. Bearer shares are transferred through their delivery by the shareholder to the person who acquires them for any consideration, without requiring any endorsement or any report of such transfer to the company. As we can see, bearer shares are a guarantee to the shareholder who wishes to remain anonymous. Additionally, bearer shares simplify the transfer of ownership in the company, absent of any bureaucratic procedures. The risk of this type of shares is that the holder thereof will be considered as its owner. Therefore, in case of loss of a bearer share the true owner can not claim title thereof.

### Shareholders' and Board of Directors' meetings

The meetings of the shareholders or directors can take place anywhere in the world. The law also allows that the resolutions of shareholders and directors be adopted by consent, through electronic means, either by telephone or fax. There is no requirement for Annual General Meetings of the Shareholders and/or Directors.

### Reporting Requirements

Other than for the carrying out of specific types of business activities within Panama, such as banking, insurance or the providing of public utility services, there is no government entity or

agency that has to authorize, approve or supervise the formation of a corporation. There is no obligation of filing any kind of statements or financial reports before the fiscal authorities of Panama by corporations that do not carry out businesses within Panama. Transactions conducted abroad or the income earned from the same are not subject to report. Also, it is not necessary to register or provide before any government authority, private or confidential information of the corporation, such as names of the shareholders, financial statements, and names of trustees or resolutions adopted by the Board of Directors or the Shareholders. There are no reporting requirements for non-resident Panamanian companies.

### **Taxation**

The Panamanian taxation system is based on the territorial source of income. As such, the income earned from commercial transactions conducted outside of Panama is not subject to taxation in this country. Non-resident Panama corporations are 100% tax-free on its activities outside of Panama. Those companies which do not carry out activities within the Panamanian territory and do not obtain income from a Panamanian source, are only subject to the payment of a fixed tax of US\$250.00 dollars of the United States in order to complete its incorporation. On the other hand, for those corporations that do carry out activities within the Panamanian territory are subject to the payment of a fixed annual tax of US\$250.00 dollars of the United States as of the date of its incorporation. This tax will turn into US\$300.00 from the second year of the corporation operation.

### **Panamanian private foundations**

Foundations are regulated in Panama by Law No. 25 of 1995. A Private Foundation is a legal entity with its own existence and identity, which is used for family, religious, public or charitable purposes. It can not undertake commercial activities as a regular objective as they shall not be profit oriented. Also, a Foundation can exercise shareholders' rights as owner of the shares of stock of a corporation that may be part of its assets. These foundations are of similar nature to the Stiftung from Liechtenstein.

### **Formation**

The formation of a Private Interest Foundation is as simple and expedite as the organization of a Panamanian offshore company. It can be created by one or more individuals or corporations, either directly or through a third party, usually, the Resident Agent of the Foundation, by means of the adoption of a deed, which must be notarized and registered with the Public Registry. This means that the person interested in the organization of a Foundation does not need to appear as the founder. He can entrust the incorporation of a Foundation to a third party. The important issue to be considered in this regard is that the charter of incorporation of the Foundation should set out regulations that vest on that third party the management and disposition of the patrimony of the Foundation. Once the deed is registered with the Public Registry of Panama, the Foundation comes to life and is immediately able to carry out its objectives. The creation and operation of the Foundation, as well as the disposition of its patrimony is not subject to the supervision of any authority.

### **Estate of a Foundation**

The assets of a Foundation may be obtained as a result of any lawful act or transaction and may consist of properties of any nature, present or future, either real estate, securities, shares of stock, chattel of any nature and money, among others. The assets of a Foundation can be increased at any time. Any person different from the Founder can give, donate or assign assets to the Foundation.

According to the law, the Foundation must have a patrimony worth not less than US\$10,000.00. Once a Foundation has been incorporated, the Founder must comply with this requirement. The assets of the Foundation are a separate and independent estate from the Founder's personal assets. Once the assets have been transferred to the Foundation, their property no longer belong to the Founder, therefore said estate can not be attached, seized or be subject to any lawsuit, claim or legal actions by any creditor of the Founder as a result of obligations or liabilities of the founder or the beneficiaries of the Foundation.

### **Duration**

A Foundation will last either for the period stated in the statutes, when its purpose has been achieved, after the death of the founder or can be created to become effective upon the death of the Founder.

### **Tax benefits**

The law states that the organization of a Foundation; the amendment of its articles or its dissolution will not be subject to any type of tax, nor will the assignment, transfer or security of the assets of the Foundation. In order to complete the Foundation's incorporation is obligatory pay a fixed annual tax of US\$250.00 dollars of the United States. This tax will turn into US\$300.00 from the second year of the operation of the Foundation as of the date of its incorporation.

### **Redomiciliation of Foundations**

Foreign Foundations can be domiciled in Panama and be regulated by the Panamanian legislation of Foundations. Likewise, Panamanian Foundations can be transferred to other jurisdictions by resigning to its domicile in Panama.



The Panamanian government offers foreign and domestic investors alike treatment. Foreign investment does not require prior authorization, except investments that resort to incentive regimes. Furthermore, the Foreign Exchange Law establishes that, to be able to operate in the country, every bank must have a license issued by the National Banking Commission, attached to the Ministry of Finance and Treasury.

### **Panama Forms of Operation**

- Panamanian Corporation
- Off-shore Corporation
- Civil Partnership
- Foundation
- Trust

### **Panama Business Environment**

In terms of business and communications infrastructure, Panama City in particular owns the highest international standards. The well-established banking sector has also demanded high standards.

### **Exchange Capital**

There are no exchange controls in Panama and there is no Central Bank. Foreign investment is welcomed. Panama has no control on foreign exchange or transfer of funds. There are no restrictions on transfers of profits, dividends, interest and royalties. In addition, there are no limits on capital repatriation. Capital may be transferred freely.

### **Panama Colon Free Zone**

The Colon Free Zone was established by Law No. 18 of 1948. The Free Zone is in the city of Colon at the Atlantic entrance to the canal, and has been extremely successful - more than 1,000 companies are established there, and are shipping more than USD\$9billion of goods annually.

Companies established in the Free Zone are largely free of taxes. All kinds of processing and manufacturing are permitted within the Free Zone. 80% of a company's output must be exported; the remainder can be sold internally.

### **Immigration law-Panama entry and residence**

The Panamanian residence is issued easily. Panama classifies foreigners entering the country as Tourists, Temporary Visitors, Special Temporary Visitors, Tourist-Pensioners, Immigrants and Investors.

These are the most common types of visas that are granted:

Tourist Pensioner: the only need is a guaranteed pension income of only USD\$500 per month

or USD\$600 per month for a couple. It must be a pension from a government agency as social security, disability, or armed forces or from a private company.

Private Income Retiree Visa: This visa is for persons who don't have a monthly pension, are no longer working, and have received a retirement lump sum. As a visa requirement, that money is to be deposited on a five-year certificate of deposit with the National Bank of Panama, to yield at least \$750 a month. This visa includes such benefits as a traveling Panamanian passport; that however does NOT grant nationality, a one-time exemption of duties for the importation of household goods up to \$10,000, and an exemption every two years of duties for the importation of a car.

Person of Means Visa: Designed for those who wish to live in Panama off their own means, without the need to work or start a business. The person must have a two-year certificate of deposit in any local bank of at least \$200,000.

Investor Visa: Designed for those who wish to establish a business in Panama. There must be a minimum investment and minimum of three permanent Panamanian employees hired.

Residence for Italians: For Italians is only necessary to present their passport and Police Record duly authenticated in order to obtain the Panamanian residence. They aren't obligated to renounce to the Italian nationality.

Panamanian immigration law provides for a list of visas that allow the owner to reside in Panama and to obtain a Panamanian personal identity card; known as "cédula".

For persons interested in coming to Panama often but without being considered for permanent residence, there are multiple types of visas. There are also visas available for investors.

### **Nondiscrimination guaranteed**

Article 19th of the Constitution of the Republic of Panama establishes: "There shall be no personal privileges or discrimination based on race, birth, social class, sex, religion, or political ideas".

### **Benefits and incentives**

- Incentives for the construction and rehabilitation of the Republic of Panama
- Incentives for investors in the tourist sectors of the Republic of Panama
- Incentives for the owner, promoter or investor
- Incentives for the leaseholder
- Incentives for buildings and parking areas
- Incentives for those companies dedicated exclusively to operate as tourist reception in the Republic of Panama
- Incentives and benefits for new projects in the Republic of Panama

### **Panama as an International Banking Center**

Panama has the most modern and successful international banking center in Latin America, with more than 70 banks from 35 countries represented. Panama's new comprehensive banking law (Decree No. 9) meets the standards of leading financial centers around the world for transparency and regulation, and conforms to the statutes of the Basel Committee.

## Panama Canal

On October 22, 2006, the Panamanians through a free and democratic National Referendum approved the Expansion of the Panama Canal, through the construction of a Third Set of Locks.

The objectives of the Canal expansion are to: (1) achieve long-term sustainability and growth for the Canal's contributions to Panamanian society through the payments it makes to the National Treasury; (2) maintain the Canal's competitiveness as well as the value added by Panama's maritime route to the national economy; (3) increase the Canal's capacity to capture the growing tonnage demand with the appropriate.

With this decision, the Panama Canal Authority is duly authorized to start an important project of global impact that will signify an estimated investment of up to 5.2 Billions U.S. Dollars, within the next 7 years.

The expansion of the Panama Canal represents a great number of opportunities and new challenges for our and international community.

Our Law Firm understands this opportunity, that's why we have been taking the necessary steps in order to be able to give the proper assistance on the different areas that will be demanded such as construction, energy, tourism, real estate, immigration, hydroelectric, banking, labor and many others.

José Agustin Preciado  
 preciado@fmm.com.pa  
 www.fmm.com.pa

## Employment legislation

A Labor Code of 1971 regulates the relationship between employer and employee. The Panamanian Labor Code still tends to be protective of the worker and somewhat prohibitive for the employer. Under the code, three types of labor contracts are recognized. The Definitive Period of Time Contract allows for employment not to exceed one year. The time period of a Defined Work Labor Contract is determined by the job performed. The Indefinite or Permanent Labor Contract is for a duration which is at yet undetermined by the parties at the time of signing. When special circumstances dictate them, probationary three-month contracts may be signed.

### Some special notes to employers include:

An annual paid vacation of 30 days for every 11 months of continuous employment. The law establishes that the employer may fraction vacation time to employees into two equal periods of time, contingent upon a previous arrangement with the employee.

A "Thirteenth Month" compensation that is aggregated at one day's salary for every 11 days worked. The bonus is paid in three installments in April, August and December.

Termination compensation equivalent to a week's salary for each year worked.

An unjustified cause termination payment is calculated according to the value of which is based on labor code indemnification tables. After the amount is paid, the effected employee must be rehired if he or she desires.

A paid maternity leave of 14 weeks.

Working hours and holidays

The maximum normal workweek is 48 hours for daytime work, 42 hours for night work and 45 hours for mixed day and night work. The law establishes that employers cannot demand employees to work overtime. The law permits up to 3 hours of overtime per day and a maximum of 9 hours per week.

## Obligatory rest

All employers are forced to grant to its workers the period of normal rest that they need to replenish their forces. As a rule, the period of rest is not smaller of half an hour greater of two hours by work day. Also, exists the obligatory weekly rest that is of twenty-four hours, and must occur, of preference, Sundays. The work in days Sunday or any other day of obligatory weekly rest must be remunerated with a 50% surcharge on the wage of the ordinary day, without damage of the right of the worker to have another weekly rest.

## Salary

Is the payment that the employer must pay to the worker in the occasion of the work relation, and includes not only paid in money and the species, also the allowances, perceptions, advan-



tages, premiums, commissions, participation in the utilities and all entrance or benefit that the worker receives for reason of the work or as a result of this one. The stipulated wage must be provided to the amount and quality of the work and could not be inferior to which it pays attention like minimum. The wage will only be able to pay attention by unit of time (month, fortnight, week, day or hour) and by tasks or pieces. The minimum wage pays attention according to the region and the economic activity.

### Labor organizations

Trade unions exist in most industries and main enterprises. Legally recognized collective agreements also exist. There is a labor board of a sort the employees can complain to without a need for a lawyer. The board tends to lean heavily towards the employee. In Panama the organization of unions is considered to be of public interest as an effective means of contributing to the maintenance of social and economic development of the country, popular culture and democracy. A worker protected by the union privilege cannot be dismissed without the prior authorization of the labor courts.

### Working conditions controlled

Legislation provides a certain number of minimal protective conditions in case of accident or illness.

### Advance warning

The advance warning is the notification of the dismissal that the employer must do to him to the worker with thirty (30) days of anticipation, in the cases in that the employer can end to him the labor relation without invoking any causal one for the dismissal. Of not doing it, the sum corresponding to the advance warning will have to pay to him, that is to say, thirty days (30) or (1) a month of wage.

### Hiring a foreign worker

Panamanian laws establish that only 10% of a company's work force can be foreign. The law establishes that 90% of employees must be Panamanian citizens or a foreign individual married to a Panamanian, or foreign individuals that have resided in the country for ten or more years. Under circumstances where the company requires specialized staff that is not readily available in the labor force in Panama, it is permitted to hire technical or specialized staff not exceeding 15% of all the company's employees. In order to be able to work in Panama, every foreign require a work permits. Work permits are issued by the Ministry of Labor for a period of one year, renewable for up to five years.

### Social Security Taxes

Both employers and employees contribute to the social security of Panama.  
The employer pays 10.75% of all salaries and wages, plus 1.5% education tax.  
The employer deducts the social security taxes from its income taxes.  
The employee pays 7.25% of social security tax plus 1.25% of education tax.

Fanny Evans  
fevans@fmm.com.pa  
www.fmm.com.pa

Farah Molino  
fmolino@fmm.com.pa  
www.fmm.com.pa

### Panama Real Estate Overview

Real estate in Panama features Caribbean and Pacific waterfront and beachfront, island, highland, mountain, rainforest and agricultural property options.

Panama City has become a cosmopolitan modern metropolis - there are many rise buildings overlooking the ocean and the Bay of Panama.

Additionally, Panama's real estate market has proven to be solid through the years, which is the reason why several international real estate firms have established franchises in Panama City. Also, major banks have established franchises as well in order to provide total financial services.

Furthermore, Panama has a global position, direct flights to major cities and technological resources and financial infrastructure, which are a great advantage for many investors.

### Types of Property

Panama has three different types of property, which are the followings:

**Titled Property:** Titled property is similar to "fee-simple" title in the United States and is the most secure form of real property ownership in Panama. Titled property is verifiable through the Public Registry system and is guaranteed by the Constitution of the Republic of Panama. Titled property can also be mortgaged.

**Possession Rights Property:** This property is government owned but is "occupied" or "used" by a Panamanian individual or Panamanian organization for some time. Possession rights are generally certified by either municipal mayors, sheriffs, or other government organizations. Possession rights do not incur property taxes.

**Concession Property:** Is not unlike "land lease" arrangements, common in Mexico or Hawaii. Concession Property is government owned property, where the government has granted a concession to an individual or organization for a specific purpose, such as a real estate development, hotel, or marina. Concessions in Panama are generally granted for a maximum of 20 year (renewable periods). Some concessions are granted for up to 40 years, also renewable, in specially designated areas. Concession Property is often located on islands, in special coastal or other protected areas where titles are not permitted by law.

### Ownership options



Panama has the option to buy as an individual, through a Panamanian corporation or to have a power of attorney issued to a local representative, Apostilled or Authenticated by your local Authentication Authorities.

Although not mandatory, it makes it easier and advantageous to own a property through a Panamanian Corporation. The two principal advantages of purchasing property in the name of a corporation are:

1. Property owners receive a certain level of asset protection from frivolous law suits and nasty divorce settlements by having the property in a name of a corporation rather than in their own name.
2. At the moment that the owner decides to sell the property at a later date, will be exempt from having to pay a 2% transfer tax on the property. This is so because upon sale, shares of the corporation which owns the property would be transferred, rather than the property itself.

### **Land Register Institution**

The Panamanian Public Registry has jurisdiction over the registration of titled properties throughout the country. All transactions pertaining to the sale and purchase of real estate should be registered with the Public Registry General Office. This serves as a guaranty to all investors. A titled property is verifiable through this institution. The Panamanian Public Registry handles a number of legal interests. It is divided into several departments depending on the matter; such as: Persons, Mercantile, Mortgage and Property.

### **Property Acquisition Process**

- I. Confirm the title. The first thing to do is confirm in the Panamanian Public Registry the legal owner of the property.
- II. Promise to buy. Once the title is in order, the next step is to enter into a Promise to Buy-Sell Agreement, whereby the buyer gives the seller a down payment and set a date for the transfer of title. Normally, there is a penalty if either party backs out.
- III. Transfer the title and the funds. The safest thing is to use our firm's escrow service.
- IV. Record the purchase at the Public Registry. The purchase is not completed until it is recorded at the Public Registry. This recorded process normally takes few days.

### **Contracts formalities**

Contracts in English hold no legal weight in Panama because all judicial processes are conducted in Spanish. For any real estate transaction in Panama, a contract written solely in English carries no legal weight, and is generally not recognized. All contracts for property must be in Spanish, on a formal public deed, and duly signed before a public notary in order to be legally enforceable.

### **Panamanian Real Estate Taxes**

**Transfer tax:** Transfer tax in Panama is paid by the seller, and is the 2% of either the updated registered value of the property or the sale price. If the property is bought owned by a corporation, it is customary for the shares of the company to be sold (instead of the property), thus eliminating the need to pay transfer tax.

**Property Tax:** Properties of a higher value than \$20,000 pay taxes as follows: 1.75% from

\$20,000 to \$50,000; 1.95% from \$50,000 to \$75,000; and 2.10% over any property value above \$75,000.

**Tax Exemptions:** Properties with a registered value of \$20,000 or lower do not pay property tax. Also, investments in one of the special "tourism zones," are exempt from income tax for 15 years.

### **Financing**

It is easier to get a loan or mortgage in Panama than anywhere else in Latin America. Local financing is widely available for foreign residents, even if they do not spend all year in Panama. The interest rates vary with the mortgage amount. On the other hand, there's no minimum loan amount and the maximum loan amount depends on the type and value of the property.

Panama Real Estate Business Practices

### **Right of ownership by non Panamanians (Foreign Ownership)**

Foreign investments in all real estate areas are welcome and present in Panama. The procedures to adjust to the legal requirements in this area are simple and easy to implement. In the particular case of retirees or pensioners the Panamanian law grants many prerogatives and privileges, as well as ample financial opportunities in Panama's modern banking center.

### **Requirements to practice as a Real Estate Agent (Broker)**

It is necessary to have a professional capability license, issued by the Real Estate Technical Board of the Republic of Panama. Panamanian citizens and foreign nationals who have resided in Panama for over 5 years are eligible to request this license, as long as they pass the professional examinations required by the technical board in a satisfactory manner and further do not have any problems complying with the other mandatory requirements.

### **Practitioner Dispute Resolution Systems**

In accordance with Executive Order (Decree Law) No. 6 dated July 8th, 1999, the Real Estate Technical Board of the Republic of Panama is empowered to listen to the arguments presented regarding any conflict that arises between contracting parties in a real estate sale or purchase transaction, and to impose the corresponding sanctions, should that be necessary. The Panamanian Association of Real Estate Agents/Brokers and Promoters has a strict code of ethics for its members.

### **Compensation**

It is customary in the Panamanian market to set the commission level at 5%, to be credited to the real estate agent/broker for the sale of a property. Nevertheless, setting the amount of the commission is free for negotiation between the parties. Except in the case of an agreement to the contrary, said commission shall be discounted from the payment received by the seller of the property.

José Juan Márquez  
marquez@fmm.com.pa  
www.fmm.com.pa

Regarding taxation, there is no distinction between foreign and Panamanian individuals.

### **Panama Income Tax**

Income is defined as the aggregate of profits from Panamanian sources after deduction of allowable expenses and losses and ignoring exempt income. Income includes profits from employment, rendering independent personal services, business activities and from investment.

The income tax only applies to Panamanian-sourced income. This is irregardless of whether you are a Panamanian citizen or a temporary resident. Taxable income includes wages, salaries, business profits, pensions, income from copyrights, trademarks, sales of stocks, bonds, and other securities.

Deductions can be made for all medical expenses incurred in Panama, charitable donations, home mortgage interest, education expenses, and loans for home improvements.

Employment income in respect of a work done in Panama is taxable regardless of where the payment is made or received.

### **Rental Income Tax**

Who receive rental income on from a property, will be liable for income tax up to a maximum of 27% on rental income greater than USD\$30,000.

### **Tourism Zone Tax Exemption**

Income from the operation of a tourism project, approved by the Panamanian Institute for Tourism and located in a "Tourism Development Zone of National Interest" is granted a 15 year exemption from income taxes. This does not apply to housing projects. It does apply to a hotel, golf course, tennis courts, restaurants and discotheques attached to a hotel.

### **Inheritance & Gift Taxes**

Inheritance taxes in Panama have been completely abolished.

### **Real Estate Property Transfer Tax**

Sellers pay a real estate transfer tax when title is transferred to the purchaser. This tax rate is 2% of either the updated registered property value or the sales price.

If the property is owned by a corporation, the corporation's shares can be sold, instead of the property, eliminating the need to pay the transfer tax.

Capital Gains Tax on the sale of Corporate Shares

Any sale of shares, bonds, or other securities outside of Panama derived from a company producing income in Panama, are taxable income in Panama.

On June 20, 2006, the law changed in the following manner.

Except for publicly traded securities that are exempt from capital gains & income taxes, all profits earned from the sale of bonds, shares, participation quotas, and all other securities issued by legal persons, or derived from the sale of personal property, are taxable income in Panama. The taxpayer will be subject to Capital Gains tax at a fixed rate of 10%.

The buyer is obligated to withhold 5% of the total value of the sale from the seller as a prepayment of the seller's Income Tax from Capital Gains. The buyer shall remit this amount to the Panama Tax Department within 10 days of the sale's closing. If the buyer fails to do so, s-he is jointly responsible for the unpaid taxes.

The taxpayer has the option to declare the amount withheld by the buyer as the income tax due on the capital gain. However, if the withheld amount is greater than 10% of the capital gain, the taxpayer can present a special affidavit claiming the excess as a Tax Credit against taxes owed during that tax year.

### **Business Income Tax**

Taxation in Panama is governed by the Fiscal Code in which is established that only those incomes derived from business carried on in Panama itself are subject to taxation.

### **Social Security Taxes**

Both employers and employees contribute to the social security of Panama. The employer pays 10.75% of all salaries and wages, plus 1.5% education tax. The employer deducts the social security taxes from its income taxes. The employee pays 7.25% of social security tax plus 1.25% of education tax.



