

# PANAMA BUSINESS GUIDE HANDBOOK

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# Who We Are

## PANAMA OFFSHORE LEGAL SERVICES

### OUR MISSION

This booklet will guide you through the advantages of coming to Panama, the legal entities available to you in Panama, how to establish a business in Panama, how to purchase real property in Panama, and how to immigrate to Panama.

### ABOUT US

Since 1998, our law firm has grown to a staff of over 20 professionals consisting of attorneys, accountants, financial advisors, and paralegals.

We are members of the Panama-American Chamber of Commerce (PANAMCHAM) and our attorneys are registered with the National Bar of Attorneys (Colegio Nacional de Abogados).

We provide you with **reliable** and **ethical** professional services.

Our **English speaking** professional staff will guide you through the procedures for Incorporation, Immigration, Real Property transactions, Estate Planning, Asset Protection, and Financial Services Introduction.

**Privacy & Fast Service at an Affordable price!**

### Our Services

As a Full Service law firm, we not only provide you with the usual legal services found in law firms around Panama, but we offer you much more!

## COMMERCIAL LEGAL SERVICES

Our Corporations department offers a variety of commercial legal services including:

- Corporations
- Private Interest Foundations
- Nominee Directors Services

- Commercial Business Licenses
- Copyright & Trademark Services
- Contract Drafting & Mail Forwarding

## **FINANCIAL ACCOUNT INTRODUCTION SERVICES**

We can recommend and assist you with opening a variety of Financial Accounts:

- Bank Accounts (Panama & Other Countries)
- Merchant Accounts
- Brokerage/Investment Accounts
- Forex Trading Accounts

## **REAL ESTATE LAW**

We are a full service law firm. Our real estate law department can assist you with:

- Due diligence research on any property's title, to verify any liens and encumbrances registered at the Public Registry of Panama;
- Preparing and reviewing the initial and final Buy/Sell Contracts;
- Property title transfers & title segregations;
- Mortgage origination, mortgage contracts & mortgage lien registration;
- Building permits, environmental impact studies, property survey verification, & building inspections;
- Property title insurance processing;
- Escrow services including bank payment guarantees for property transactions.

## **IMMIGRATION VISAS**

Our Panama immigration law department specializes in all of the Panama immigration programs and Panama visas.

Many international investors and companies find excellent opportunities for Panama investments in reforestation, manufacturing plants, assembly plants, and

distribution facilities for import/export, software technology businesses, call centers, and a variety of other business activities. Many times, investors find that a Panamanian residency visa is just an "extra benefit" to the Panama investments that they are making. The fact that there are different Panama immigration visas and Panama residency programs suited for investors is an incentive for relocating to Panama and obtaining Panama citizenship and a Panamanian passport. Relocating to Panama and obtaining legal residency can be easier by using our experienced Panama immigration lawyers.

## I. WHY GO OFFSHORE

### 10 Reasons

Selecting an offshore jurisdiction is an integral part of establishing an offshore structure or financial account. The jurisdiction that you choose should have at the very minimum, the following 10 characteristics:

1. **A Full Fledged Tax Haven** – The offshore jurisdiction should have no income taxes on profits earned offshore, no capital gains tax on offshore investments, no interest income tax on their bank account interest, no offshore income tax, no inheritance tax, no gift tax, and no estate taxes.
2. **Favorable Incorporation Laws** - the corporate laws of the country should enable you to hold "Bearer Shares", have directors from any country, inexpensive, and be able to incorporate Private Interest Foundations as Panama does.
3. **Stable Currency With No Currency Restriction Regulations** - the currency of the country must be stable, and there should be no restrictions on the movement of funds in or out of the country, and your offshore bank should be able to hold your money in any major currency.
4. **Strict Privacy Laws** - there should be strict privacy laws that protect your banking information and corporate book information from anyone, including foreign governments.
5. **Stable Government** - the government of the country should be a stable democracy and should use the opposite legal system of your domestic country (if

your country uses common law, you should seek a country that uses civil law). The country should also be safe to visit.

6. **Stable Economy** - the economy of the country should be stable, with consistent growth and low inflation.

7. **Excellent Banking System** - the banking system of the country should be advanced in areas of international banking regulations, infrastructure, government auditing and technology.

8. **Excellent Communications System & No Natural Disasters** - the communications systems of the country should be technologically advanced in comparison with first world countries, and the country should be located in a region that is free of environmental / natural disasters (hurricanes, tornadoes, earthquakes, tidal waves, etc.), so communications are never severed or problematic.

9. **Language Compatibility** - the language of the country should be suitable for your understanding.

10. **Time Zone Compatibility & Close Location** - the time zone of the country should be such that you can contact your offshore provider or financial institution during your normal domestic business hours & fly to the country quickly (same day) if necessary to handle urgent business or financial needs.

## II. WHY PANAMA

After careful research, you will find Panama to be the ideal jurisdiction for your offshore needs, since Panama meets ALL of the criteria mentioned above! The Panama corporation law was promulgated over 80 years ago and has since been copied by many of the other tax haven nations. Panama is one of the most popular places in the world to incorporate, with currently over 500,000 registered entities. Panama also offers the Panama Private Interest Foundation, which is one of the most useful asset protection and estate planning vehicles available today.

### 14 Reasons

People use offshore corporations and foundations for several reasons including Offshore Asset Protection, Confidentiality, Privacy, Tax Planning, Investment Diversification, International Trade, Estate Planning, and much more. A carefully designed corporate strategy using a Panama Corporation and/or Private Interest Foundation can assist you with each of the areas mentioned below.

### Asset Protection

**Offshore Asset Protection:** By transferring your assets to a Panama Corporation and/or Foundation, you are automatically protecting your assets to the fullest extent. Without asset protection, you could suddenly lose everything you've worked so hard for. We live in a "litigious society", but do you know what that means to you? Let's take a look:

- 9 out of 10 lawsuits in the world are filed in North America. The US has the highest rate of lawsuits filed in the world, followed by the UK, Canada, Australia, and New Zealand.
- A new lawsuit is filed every 30 seconds in the US. It is estimated that there are over 100,000 law school students in US law schools right now, with the highest number of lawyers per capita (over 1.1 million total as of this writing).
- If you own a business or practice a profession, you have one chance in three of being named a defendant in a lawsuit in the next year, and it is only getting worse, in fact, according to Wikipedia, "The US has 4% of the world's population and 25% of the world's incarcerated population".

Panama is one of the best countries in the world to set up asset protection entities.

- Panama offers the best bank secrecy laws in the world for offshore banking.
- Panama offers the best corporate secrecy laws in the world for asset protection vehicles.
- Panama does not allow "piercing the corporate veil", so company shareholders can remain private and confidential.
- Revealing banking information to third parties is a crime, punishable by prison.
- Panama Corporations offer "Bearer Shares", for shareholders to maintain complete anonymity and privacy.
- Panama Private Interest Foundations allow for Private Protectorate Documents and Private Letters of Wishes, enabling controllers (Protectors) and beneficiaries of foundations to remain completely anonymous and private.

## **Confidentiality & Privacy**

Many people move assets by creating a company offshore simply because they are tired of intrusion into their financial privacy in their home countries. Today, people in most developed countries have zero privacy in their financial affairs, spending patterns, medical records, etc. One of the main reasons that Panama is one of the most popular jurisdictions to incorporate offshore is because Panama offers the utmost in privacy and confidentiality.

## **Tax Planning**

Tax planning is also a very important aspect of overall financial planning. Panama is one of the most popular jurisdictions in the world to incorporate because Panama is a 100% tax haven. Panama corporations and foundations offer the following tax benefits:

- No income tax on income derived outside of Panama.
- No interest income tax.
- No tax on issuance of corporate shares.

- No tax to shareholders.
- No stock sale or transfer tax.
- No capital stock tax.
- No estate tax.
- No gift tax.
- No stamp tax.
- No succession tax.
- No inventory tax.

### **Investment Diversification**

Many people use offshore corporations to take advantage of offshore investment opportunities and diversify their investments internationally. You may be from a country that has laws which restrict their citizens from investing in offshore mutual funds, stocks, or offshore private placement investments. Panama corporations and foundations are not restricted from any type of investment in the world.

Through Panama brokerage firms, you can invest in any mutual funds, stocks, bonds, options, commodities, futures, money markets, etc. on any major exchange around the globe.

Offshore Merchant Accounts also provide you with the ability to collect payments from your clients offshore in a tax free environment.

### **International Trade**

Panama corporations are extremely useful for international trade. Panama is home to the second largest international distribution center (tax free zones) in the world next to Hong Kong. Many of the worlds' largest companies set up distribution centers in Panama's tax free zones. Since the Panama Canal is strategically located in the center of the Western Hemisphere, Panama is the perfect location for goods to be distributed internationally, in a tax friendly environment. Panama's tax free zones allow companies to import, manufacture / assemble, and export products from Panama in a tax friendly environment.

### **Estate Planning**

Most of your estate could go to the government, not to your heirs. Because a corporation has a "perpetual" life and is a juridical person, a carefully designed corporate strategy allows you to care for your loved ones free from probate, inheritance taxes, and all the red tape that goes along with passing of an estate. Your heirs can inherit the assets that you leave for them, exactly as you left them, free of deductions or legal delays.

Panama Private Interest Foundations are the ideal estate planning entity for the following reasons:

- Panama Foundations can hold assets such as corporations, bank accounts, brokerage accounts, real estate, or any other types of assets and in Panama there are no income taxes or reporting requirements as long as all the income is earned outside of Panama.
- Panama Foundations can have a nominee foundation council and the foundation council members can be from anywhere in the world or replaced at any time by the Protector.
- Panama Foundations Protectors (controllers) can be appointed through a Private Protectorate Document, allowing the Protector to control the foundation privately and anonymously.
- Panama Foundations Beneficiaries can be appointed by the Private Protector through a Private Letter of Wishes, allowing the beneficiaries to also remain private and anonymous.
- The Panama Foundation has no Panama reporting requirements and pays zero taxes when assets are donated to or received from the foundation.
- The Panama Foundation can be used as a charitable entity, for receiving donations or donating to anyone that the Protector designates.

## **Financial Infrastructure**

There are several advantages to doing your offshore investment business in Panama:

- Panama is home to the second largest international banking center in the world next to Switzerland.
- Panama has the best banking and corporate privacy laws in the world.
- Panama's laws make it extremely difficult to sue or seize assets. In Panama, before suing your company, one must post a court bond of 20% to 30% of the value of the claim. Then, the one pursuing legal action is required to file a brief justifying why he or she should be permitted to sue. If the judge in the court feels the suit is not warranted, the litigant will not be allowed to sue. If they are permitted to sue, and they ultimately lose the case, then they forfeit the court bond! Needless to say, there are very few frivolous lawsuits in Panama.
- Panama's circulating currency is the US Dollar.
- Panamanian banks generally offer more competitive interest rates on USD savings accounts and CD's than most other banks around the world do.
- Panama has a very sophisticated, developed, and stable banking infrastructure.
- Panama's Stock Exchange is of the most advanced in Central & South America.
- Panama is home to the second largest international distribution center (free trade zone) in the world next to Hong Kong. Most other tax havens economic stability depends only on the offshore banking business and tourism. Panama is a genuine international business trade and offshore banking center, not just a tax haven.

## **A Safe Country**

The best way to advertise Panama as a safe place to live is to let the experts tell you. **Pinkerton Intelligence Agency** ranks Panama as one of the safest retirement destinations in the world with the highest rating for tourist and foreign resident safety.

### **Great Shopping**

Panama City is known as the "second Miami" because of its sophisticated business district, high-speed internet connections, American-style infrastructure and the elegance of many of its neighborhoods. There are endless gorgeous sea-view apartments and numerous suburban subdivisions with lovely Miami-style homes. Few Latin American cities can boast buildings of such quality construction and so many attractive neighborhoods.

Panama is a shopper's paradise for clothes, computers, and electronics. Panamanian supermarkets can easily be mistaken for American supermarkets with their large selection of American products.

### **Good Education**

Private education is excellent. There are multiple accredited international schools and dozens of fine bilingual schools. There are more than a two-dozen universities. Several United States universities have branches in Panama City.

### **First Class Medical Facilities**

Medical care in Panama is excellent and only a small portion of what it costs in North America or Europe. Preventive health care is very important here. Panama has world class medical facilities and U.S. trained physicians and specialists. There is a booming industry called "medical tourism" where North Americans and Europeans come to Panama for low cost medical treatment, plastic surgery, and dental work.

Johns Hopkins Hospital's publication "The Dome" claims that, "Panama boasts some of the best hospitals in Latin America." So much so, that Johns Hopkins now affiliates itself with the new, modern Punta Pacifica Hospital in Panama City.

## **A Good Place to Retire**

According to the Panamanian government, there has been a consistent increase in foreigners retiring to Panama. Why?

According to **The NY Times**, "With low housing and living costs, a stable political environment, relatively safe streets and that tropical climate, people in their 50's and early 60's are flocking to the Central American nation."

According to the US Embassy, "We're seeing a significant number of Americans coming here to retire," said William Ostick, a representative for the **United States Embassy** in Panama City. Mr. Ostick estimates there are now 25,000 to 30,000 Americans living in Panama.

The "Seasoned Traveler" TV program (which airs on KCTS Public Broadcasting) recently described, "Panama is one of the fastest-growing retirement areas for Americans".

## **Beautiful Environment**

Panama is simply very beautiful. Gorgeous undeveloped islands, virgin beaches, lush tropical rainforests, alpine mountains with rivers & lakes, green valleys, and breathtaking views. The Isthmus of Panama is one of the most ecologically diverse areas in the world. Panama has 936 different species of birds and 125 unique animals. The prestigious Smithsonian Institute of Tropical Research has been cataloging and monitoring Panama's vast ecological system for the past 80 years.

## **Lower Cost of Living**

Panama's currency is the U.S. dollar since 1904. Panama's banking center is the second largest in the world. Inflation in Panama is among the lowest known (an average of 2% per year over the last 40 years, except 2008 and 2009). The Colon Free Trade Zone is the largest distribution center in the Americas. Panama benefits from low production costs as most products are assembled and/or stored in warehouses in Panama's Free Zone before being shipped to other countries.

Expats moving to Panama can expect their day-to-day living expenses to be much less than in "first-world" countries, such as the US, Canada or Europe.

### **III. PROTECTION OF INVESTMENTS BY FOREIGNERS**

#### **Panama Laws regarding Foreigners**

Panama's Constitution Article 44 guarantees the protection of private ownership of real property and private investments: "... Private Property is guaranteed as long as it is acquired in accordance with the law by natural person or legal entity."

Panama's Civil Code regulates general contracts and states that Panama law applies equally to nationals and foreigners.

Panama has also enacted numerous pro-business and support of foreign investment laws.

#### **Law 54: Foreign Investor Protection Law**

Law 54 clearly states that foreign investors have the same rights as nationals in Panama:

Foreign investors in Panama and the businesses in which they participate in have the same rights and duties as national or local investors and enterprises, including those that refer to the freedom of trade and industry, and export and import.

Foreign or local investors in Panama are guaranteed the right to dispose of investment profits, the right to repatriate their capital, dividends, interest and profits produced by their investments and the right to commercialize their production.

Foreign investors are awarded a 10-year stability guarantee that all legal, tax, customs, municipal and labor rules will remain identical to those in force at the time of the investment registration.

### **DOING BUSINESS**

Panama is a business friendly country. The business infrastructure in Panama is the best in Latin America and the Caribbean. Panama has one of the largest banking centers in the world. Starting up a new company is fast, easy and

inexpensive. There are no restrictions against foreigners owning businesses in Panama. Panama's international banking center offers a variety of financing options and top quality banking services. Company start up costs is low in Panama. Local labor, construction, commercial rentals, utilities, real estate, and cost-of-living are all low in comparison with North America and Europe.

## **IV. LEGAL ENTITIES AVAILABLE TO CONDUCT BUSINESS**

### **Corporations**

Panama corporations are called "Sociedades Anonimas" (S.A.). Panama offers the most favorable and most flexible offshore incorporation laws available in the world. Panama corporations can be used for all manners of business. Forming a Panama corporation is easy, quick, and cost effective.

- **Second Most Popular Jurisdiction in the World:** Panama is the registered domicile for over 500,000 Panama corporations & Panama foundations, making it the second most popular jurisdiction to incorporate in the world, next to Hong Kong.
- **No Offshore Income Taxes:** Panama does require an annual filing if any income was derived inside Panama, however, there are no offshore income taxes for Panamanian corporations. Panama has a territorial tax system and only income produced from business activities conducted within the territory of Panama are subject to income tax.
- **No Piercing the Corporate Veil:** Panama does not allow "piercing the corporate veil", so your Panama corporate books are maintained 100% private and confidential by law.
- **Shareholders:** There is no minimum number of citizens required as shareholders. All of the shareholders can be foreigners.
- **Anonymous Ownership:** Panama allows "bearer share corporations" meaning that the share certificates can be issued in either Nominative or Bearer form (Bearer Shares are an anonymous form of ownership), with or without par value. Neither the directors nor the officers of Panama corporations need to be shareholders.
- **No Capital Requirements:** Panama corporations do not require Paid-In Capital, nor is there a time limit in which authorized capital must be fully paid.

- **Directors:** Every Panama corporation requires 3 directors/officers (President, Secretary and Treasurer). The directors/officers can be either individuals or entities. Panama corporations' directors, officers and shareholders may be of any nationality and resident of any country. The directors' names and identifications must be presented in the Public Registry when the corporation is formed.
- **Nominee Directors:** Many law firms offer their own "Nominee Directors" for their corporation in Panama. For purposes of confidentiality, using nominee directors/officers for their Panama corporations are best.
- **Directors or Shareholders Meetings:** Annual general meetings of either shareholders or directors of the Panama corporation are not mandated or required. However, if meetings are held, they can take place anywhere in the world by proxy, telephone, email or other electronic means. Any resolutions passed are valid regardless of whether they are signed on different dates or in different countries.
- **Corporate Books:** The Registered Agent is not required to keep any records for the corporation, however, every Panamanian corporation should maintain a minutes book and stock register, which can be held anywhere in the world.
- **Subscribers:** Panama corporations must have two subscribers present at the Public Registry in order to be incorporated. The subscribers are the individuals from a law firm that appear at the Public Registry with the articles of incorporation to incorporate the Panama corporation. By law, the subscribers have a right to own one (1) share of the corporation. As soon as the Panama corporation is established, the subscribers sign a document whereby they resign their rights to one (1) share of the Panama corporation.
- **Annual Corporate Franchise Tax:** Panama corporations pay a low annual corporate franchise tax of US\$300 to remain in good standing. The deadline for the tax payment depends on when the entity was formed. If the entity was formed from 1 January to 30 June, then the tax is due on the July 15. If the entity was formed from 1 July to 31 December, then the tax is due on the January 15. If the tax is not paid on or before the due date, the entity will be charged a late penalty of US\$50. If the tax is not paid after the following "deadline" period, the entity will be charged a second late penalty of US\$300.
- **Convenience:** You don't need to come to Panama to form a Panama corporation, as law firms can handle everything for through email, telephone or fax.
- **No Business License Requirement:** Non-resident Panama corporations do not require a commercial business license to conduct offshore business. Commercial licenses are only required for Panama corporations doing business within the

territory of Panama (to sell a product or service to Panamanians within the territory of Panama).

- **Re-Domiciliation:** Corporations from other jurisdictions may be "re-domiciled" to Panama, and vice-versa. Many people who have corporations in jurisdictions such as the Bahamas and other British territories are currently re-domiciling their corporations to more private and secure jurisdictions such as Panama.
- **Limited Liability:** If the corporation is sued or held liable for its unlawful actions, the shareholders are not personally liable and only liable for the unpaid subscription value of their shares.
- **Corporate Seal:** A corporate seal is optional.
- **Legal Address:** When registering a new Panama corporation, it must have a legal physical address that is included in the articles of incorporation. The law firm who created the corporation normally provides its office address.
- **Registered Agent:** Every corporation must have a registered agent to receive legal notices from the government. The lawyer who forms the corporation normally acts as its registered agent.
- **Corporate Name:** Corporations can use any name in any language as long as a similar name has not been previously registered. The corporation must include a notice of corporate status by word or abbreviation such as "corporation" or "Corp", "sociedad anonima" or "S.A.", or "Inc."

## Foreign Corporations

Corporations from all over the world can register as a foreign corporation doing business in Panama or as subsidiaries of large multinational corporations.

If you already have a corporation in another country, it can do business in Panama by filing the following documents at the Public Registry Office:

1. A notarized Spanish translation of the Articles of Incorporation;
2. Board of Directors minutes authorizing the Panamanian registration;

3. Copies of the most recent financial statements;
4. A certificate from a Panamanian Consul confirming that the company is organized according to the laws of its place of incorporation;
5. Notification of the transfer of capital to the Panamanian operation.

## Foundations

Panama has a unique legal entity called a “Private Interest Foundation” which is a cross breed between a trust and a corporation while not being either. It is not a legal personification of an individual or a group of people like a corporation. It is a legal entity which has no owners (partners or shareholders) and traditionally has the specific purpose to benefit a specific group of individuals.

The Panama Private Interest Foundation is a legal entity that was developed based on the Private Interest Foundation models from three different jurisdictions including the Principality of Liechtenstein, Switzerland, and Luxembourg. The Panamanian Government carefully designed the Panama Private Interest Foundation with the intentions of creating a more modern, more flexible, and more affordable estate planning vehicle for people from around the globe. The assets of the Panama Private Interest Foundation take on a separate legal identity from the personal assets of the Founder, Protector, Council, or Beneficiaries.

Popularly known as a Panama Foundation or Panama Foundations they can also be used for Estate Planning where the Founder transfers title to current assets and has the Panama Foundation acquire Panama real estate, Panama assets and open Panama bank accounts and Panama investment accounts.

A Panama Foundation provides international estate planning and asset protection by owning the shares of Panama Corporations.

**Founder:** The Founder is the person or entity that establishes the Panama Foundation in the Public Registry of Panama. Our law firm is generally the Founder of each Panama Foundation that we establish, since it is our law firm that goes to the public registry to incorporate the Foundation. The Founder has no influence over the control of the Panama Foundation, and is only recognized as the individual who presented the Panama Foundation articles in the public registry when the entity was originally registered.

**Council:** The Panama Foundation Council serves the same purpose as the board of directors on a corporation. The council members are each registered in the

public registry with their names, addresses, and identifications as council members to the Foundation. Our firm generally appoints a "Nominee Foundation Council" to fill the council positions, so to provide additional privacy and confidentiality for our clients. When we appoint a nominee council, we provide our client with pre-signed, undated letters of resignation from each nominee council member so that our client can replace the council at any time. The nominee council has no control over the Foundation or any of its assets; they are only there to fill in the blanks in the public registry.

**Protector:** The Protector is the person or entity who ultimately Controls the Panama Foundation and all assets held within it. The Protector is appointed by the Panama Foundation Council when the Panama Foundation is created, however, once the Protector is empowered, the Protector can then remove the council members at any time without consent of anyone else. The Protector can be appointed privately, through a Private Protectorate Document, signed by the Panama Foundation Council. Hence, the Protector can maintain this position free of public knowledge.

## Limited Liability Companies

Based upon a similar law in the United States, Panama has a Limited Liability Companies law.

**Company Name:** Instead of being called Limited Liability Company (LLC) in Panama, they are known as "Sociedad de Responsabilidad Limitada". The initials "S. de R.L." or the abbreviation "Sdad", "Ltda." or "Ltd." must be added to the company name.

**Ltd.** differs from a corporation, partnership, or sole proprietorship. Ltd. resembles corporations with attributes of a partnership and the advantage of limited liability for its members. Ltd. can engage in any type of commercial activity around the world.

**Little Liability:** Limiting member's liability to whatever they contributed is the heart of an Ltd. If the Ltd is sued for \$1 million, a member who only contributed \$10,000 will only lose that contribution. On the other hand, members of a partnership can have unlimited liability for the actions of the other partners.

**Lower Taxes:** Each member pays income taxes according to their proportion of the profits like a partnership.

**Two or More:** The new law requires a minimum of two partners (members) who can be individuals or corporations with no restriction as to their citizenship or country of residence. This is good news for foreigners. Members will have voting power and ownership interest based on their prorated contribution.

**Lack of Privacy:** Ltd. is not anonymous like corporations and foundations. The law requires registering every member's name with Panama's Public Registry.

**Loyalty:** Members are restricted from engaging in any similar business or hindering the company's business. Members can be excluded if they violate the company's rules, fail to pay their contribution, declare bankruptcy, hinder company operations, disloyalty, or guilty of gross misconduct while conducting company business. The company can withhold the excluded member's contribution. Excluded members only have 30 business days to appeal an unfair exclusion to the courts.

**Manager:** A manager can run the business whose name has to be in the Public Registry. While managers can run the day to day business activities, the agreement creating the LLC can limit the manager's powers, such as transferring assets, obligating the company to loans, or making guarantees. Managers have personal liability to the company, other members, and third parties if they are guilty of willful misconduct or negligence, infringe on any company's policies, and for poor performance. Even members who are managers risk this type of liability in performance of their managerial duties.

**In conclusion,** LLC's in Panama have advantages by limiting member's liability and taxing them as individual partners. Requiring absolute loyalty from its members is another advantage. Disadvantages include lack of privacy, no anonymity, and strict liability for their managers guilty of negligence or wrongdoing or poor performance.

## **Partnerships**

### **General Partnership**

General Partnerships are permitted in Panama. The partners will have unlimited civil liability which is similar to the United States and other countries. That means every partner can be sued even if only one of them commits an error in the course of business.

### **Limited Partnership**

Limited Partnerships (called Sociedad de Responsabilidad) are also permitted in Panama.

**Limited Partnership Members:** There may be from 2 to 20 partners with no restrictions as to their nationalities or domicile. Their Capital must be at least \$2,000 up to \$500,000. The names of the partners must be registered with the Public Registry Office including the amount of capital each contributed. Each partner's civil liability for the Partnership's debts is limited to the amount subscribed to but unpaid. If the Partnership appoints an independent administrator, his/her name must also be registered. No meetings are required if the Partnership has 5 members or less. Otherwise, a meeting must be held at least once a year. There are no requirements for annual returns or filing of any accountings.

### **Individual Limited Proprietorship**

An alternative to a Sole Proprietorship is to create an Individual Limited Proprietorship (Empresa Individual de Responsabilidad Limitada). This is set up in the same manner as a Limited Partnership except having only one member. The individual transfers his/her assets to the business. Business civil liability is limited to the amount of the committed assets.

### **Civil Partnership**

A Civil Partnership (Sociedad Civil) is allowed in Panama. The liability of the partners is unlimited. This type of partnership is often selected by professionals such as lawyers and accountants.

### **Commandite Company**

The Commandite Company (Sociedad en Commandita) is a hybrid partnership and corporation. At least one partner must have unlimited liability, while the liability of the limited partners is limited to the amount of capital subscribed. This type of legal structure is seldom used in Panama.

### **Other Entities**

**Sole Proprietor** where you and your spouse & family operate a business as sole owners.

**Joint Venture** where a form of partnership is created by an agreement which may contain different duties, liabilities, and sharing of profits than found in any of the formal partnerships mentioned above.

## **V. STARTING A BUSINESS IN PANAMA**

### **Commercial License**

A commercial license allows you or your business entity to sell products or services inside Panama. The Ministry which issues commercial licenses is called “Ministerio de Comercio de Industrias”, translated as the Ministry of Commerce & Industry. This is otherwise known as your Business License. Every business operating in Panama is required to have one.

### **Limitations for Foreigners Regarding Certain Professions**

Certain professions are closed to foreigners until they become citizens of Panama including medical & veterinarian doctors and lawyers.

Other professions require foreigners to have legally resided in Panama for at least 10 years including real estate brokers and insurance brokers.

## **VI. CONDUCTING BUSINESS IN PANAMA**

### **Free Trade Agreements**

Free trade agreements allow countries to import and export goods duty free.

As of this writing (April 2013), Panama has signed trade agreements with 10 countries which have been ratified including the United States and Canada.

There is a 1982 bilateral investment treaty between the United States and Panama.

Panama has limited trade agreements with Mexico, Cuba, Colombia, and the Dominican Republic.

Panama along with five other Central American countries is negotiating an association trade agreement with the European Union.

### **Importing and Exporting**

**Importing:** Since 1997, Panama has been a member of the World Trade Organization (WTO). Panama follows the WTO's General Agreement on Trade and Tariffs and their Customs Valuation Code. An ad valorem system assesses import tariffs. Panama's National Customs Authority clears all imports. Licensed customs brokers are available to handle customs declarations and other import documents. A commercial invoice, airway bill, or a bill of lading, along with an import license is required for all imported goods. The Ministry of Health must

approve all imported pharmaceuticals, food, cosmetics, and veterinary products. Sanitary permits may be required for the importation of agricultural products.

Exemptions to tariffs are made through international trade agreements or by special tax or customs regimes. Imported goods which are fully or partially exempt must be used for the purposes stated in the exemption.

Certificates of origin must accompany the goods in order to claim the exemption.

It is prohibited to import certain guns & ammunition, counterfeit money, certain types of pornography, and lottery tickets from other countries.

**Exporting:** There are no export taxes. The National Foreign Trade Window (“Ventanilla Unica de Comercio Exterior”) of the Ministry of Commerce and Industry coordinates all exports with other government agencies since 1985.

Free trade agreements generally require a certificate of origin to accompany the goods in order to claim tariff exemptions.

Panama has a tax incentive program promoting non-traditional agricultural products enacted in 2009 called the Program for the Promotion of Competitiveness of Agricultural Exports. This program lowers the exporting costs in compliance with the WTO’s Agricultural Agreement. Exporters can apply for this program with the Ministry of Economy and Finance within 6 months after the exportation. This program provides a certificate which can be used for payment of taxes. Exporters already benefitting from other incentives for export cannot apply for this program.

Many of the goods exported from Panama can receive benefits from bilateral preferential treatment programs such as the United States Generalized System of Preferences, the European Generalized System of Preference, and the Caribbean Basin Initiative.

Panama does most of its trade with the United States with the European Union second and Central America as third.

## **Competition**

Antitrust and fair competition laws exist in Panama and apply equally to all companies doing business here. Price fixing, bid rigging and market allocation are prohibited as being monopolies. Practices of tying and exclusivity agreements may be illegal depending upon the power over the relevant market exerted by the parties. Panama’s antitrust and fair competition laws are similar to the same laws

in the United States where “per se” monopoly activities are prohibited while tying and exclusive agreements come under scrutiny using the “rule of reason” standard.

Mergers, acquisitions, and other business groupings which hinder or restrict competition are illegal under Panama’s antitrust laws. The law does not require pre-approval of these activities. However, the government regulatory agency Authority for the Protection of Consumers and Defense of Competition has the right to investigate these activities and can file a civil lawsuit to stop them. By obtaining prior approval from this regulatory agency will prevent third parties from claiming antitrust violations.

Additional antitrust laws exist with specific industries such as free and paid television, telecommunications, and power generation.

## **Protecting Consumers**

Every buyer in Panama has certain rights under Law 45 of 2007 known as “The Consumer Protection Law”. This law prohibits clauses in contracts allowing excessive delays or limiting the rights of consumers. If the delivery of services or goods takes too long, purchasers have the right to end the contract without penalties. This law also prohibits contracts calling for penalties such as loss of down payments or installments if the contract cancels through no fault by the purchaser. Sellers don’t have the sole right to cancel contracts. For instance, this law prevents the cancellation of contracts by real estate developers wishing to resell properties for greater profits.

The law states that “abusive clauses” will become invalid if the contract “excessively favors the vendor”. What does that mean?

“Abusive clauses” defined in the law include restricting adherent rights of consumers by limiting the obligations of the vendor. “Excessively favors the vendor” includes exempting the vendor from personal injury liability or allowing the vendor to cancel or modify the contract unless the purchaser fails to comply with his obligations. The law prevents consumers from waiving their rights in advance. For instance, consumers cannot waive their right to take legal action. Contracts which are illegible are also illegal.

Contracts allowing excessive time for completion are illegal. The consumer has the right to terminate such contracts without being subject to any penalties.

All advertising must be truthful. Consumers have the right to demand fulfillment of all advertised promises. Every contract must specify delivery or completion dates if not performed immediately. Consumers have the option to terminate the contract if those dates pass without any penalties. The exact price and adjustments for increased cost of materials must be in writing.

The Authority for the Protection of Consumers and Defense of Competition is a government regulatory agency which investigates consumer complaints about violations under this law.

## **VII. FOREIGN INVESTMENT INCENTIVE LAWS**

### **Colon Free Trade Zone**

The Colon Free Trade Zone was created in 1948 and is the 2<sup>nd</sup> largest in the world behind Hong Kong's. More than 1,800 companies operate within zone. Most of these businesses are in the importing and exporting trades and have warehouses, factories, and re-package all kinds of products. A semi-autonomous government agency manages the zone and grants operational permits and leases space.

To operate in the zone companies must have at least 60% of all imported products be exported per year and hire 5 Panamanians.

Benefits of being located within the zone include no import duties, only a 5% dividend tax and income tax exemption on earned income from exporting products.

### **Special Economic Areas**

The Panama Pacifico is a 1,400 hectares business park built on the former United States Howard Air Force Base near the Panama Canal entrance. This business park will resemble a small city when completed by the British development company London & Regional which has a concession agreement with the

government. Companies wishing to operate inside this economic area must apply with London & Regional Panama and with the government agency Panama Pacifico Agency.

The benefits of being located within Panama Pacifico include exemptions from the following taxes: income taxes, import duties, stamp tax, real estate taxes, remittance tax, international calling tax, and dividend taxes. There are also tax exemptions for transferring goods and services between the ports, to ships and passengers, to petroleum free zones, to other companies and government agencies located in Panama Pacifico, and to the London & Regional Panama company. Tax benefits will have a 10 year consistency. Labor laws regarding working hours, Sunday & holiday pay, and the right to negotiate different days of rest and vacations with employees are relaxed. Companies will also have more immigration visas and work permits for foreign workers.

Qualifications for location within the Panama Pacifico requires being engaged in one of these industries: offshore services, call center, multimodal & logistics services, back office services, data & digital transmission, high tech manufacturing & assembly, maritime services, or aviation services.

## **Export Zones**

Special zones solely for exporting exist in Panama called Export Processing Zones.

Benefits of companies located in these zones include exemption from taxes levied on patents & licenses and capital assets; lower 5% dividend tax; exemption on duties for equipment, machinery, raw materials, semi-processed products; and all other materials for manufacturing. Additional benefits include no immigration visa or work permit quotas for hiring foreigners and all immediate family members of foreign employees moving to Panama are granted visas. Labor laws are relaxed to allow for different vacations and days off for seasonal employees.

## **Call Centers Law**

A special law exists for call centers which provide many incentives for operating in Panama.

Benefits include income tax exemption, value added tax exemption, import duties exemption for all equipment used, lower 5% dividend tax, relaxed labor laws

allowing flexible hours & lower overtime and holiday pay, immigration visa & work permit exemptions for foreigners and visas for all immediate family members of foreigners who relocate here.

Qualifying under this law requires setting up a company in Panama which offers assistance by telephone to Panamanian or foreign companies' customers with sales assistance, marketing services, telemarketing, customer services, product and/or services technical support or business information, or other specialized commercial activities.

## **City of Knowledge**

The former U.S. Army Base of Fort Clayton has been transformed into the City of Knowledge which contains international research, educational, and high tech companies providing services to international governments, science research centers, business and non-government organizations, and universities. The not for profit City of Knowledge Foundation administers this complex.

Benefits of having a company in this complex includes income tax exemptions; import duties exemptions for all equipment, vehicles, furniture, machinery, and any other materials needed for the company's operations; exemption from sales taxes on all goods and equipment needed for the company's operation; property transfer tax exemption; and immigration visa and work permit quota exemptions for highly skilled foreign employees along with visas for their immediate family members who relocate here.

## **Multinational Regional Center Law**

Panama created incentives for multinational corporations to establish their global or regional headquarters here. This is a law specifically for a "Multinational" company, not small, local, one-store companies. The term "Multinational" means branches, offices, or subsidiaries in many countries. For example, Dell Computer Company is a multinational company already in Panama employing 2,000 workers. Dell has its corporate headquarters in the United States with branches in several countries. Proctor & Gamble, Hewlett-Packard, and Caterpillar are a few of the many multinational companies who created regional centers in Panama.

**Tax Advantage:** An income tax exemption applies to work done for customers outside of Panama which allows for income tax free proceeds generated through sales to customers outside of Panama.

**Process:** File the headquarters' Articles of Incorporation with the Public Registry as a foreign corporation doing business in Panama. File audited financial statements of the parent corporation. Submit bank reference letters and commercial reference letters from customers of the parent corporation. The licensing commission will review these documents to determine how multinational the parent company really is.

**Visas:** This law also provides easier and faster immigration visas for foreign "key" employees in "management" positions.

## **VIII. DOING BUSINESS WITH THE GOVERNMENT**

### **Concessions**

There is a specific law which governs concession agreements to private companies constructing, maintaining, and operating infrastructure projects. Any fees or tolls charged by the private company will be supervised by a regulatory agency.

The Cabinet Ministers award infrastructure concessions. The governmental agency regulating the specific infrastructure prepares the tender documents for the project. The procurement process described below applies to the awarding of concession agreements.

The following tax benefits apply to these types of concessions:

Exemption from the value added tax, import duties, stamp tax, income tax during construction and for the first 5 years of operation with a partial exemption after the

5<sup>th</sup> year. There is also an exemption from the withholding tax on interest payments made to financial institutions that financed the project.

Concession agreements must be written in Spanish, follow Panama laws, requires special courts to resolve any disputes which can only be appealed to the Panama Supreme Court. These contracts also provide that the governmental agency may terminate the contract at will by paying an indemnification to the bidder. These contracts also contain a diplomatic claims waiver when the bidder is a foreign person or entity.

Different rules apply for concessions concerning telecommunications, power generation, mining, ports, paid for and public television, and airports.

## **Procurement**

Any individual or company either national or foreigner can bid on Panama government contracts.

The Panama government website to obtain information about future public contracts and the bidding process called “Panama Compra” is:

<http://www.panamacompra.gob.pa/>

The procedure for government agencies seeking to procure goods and services is as follows:

1. Tender Documents prepared by the governmental agency contains the terms and specifications.
2. Publication of Notice of Purchase in the Panama Compra website and in national newspapers.
3. Open Meeting for all projects valued in excess of \$175,000 USD called by the governmental agency with interested parties to explain the project and answer questions. Based upon questions raised at this meeting, the agency may amend the tender documents.
4. Submit Bids written in Spanish either directly to the government agency’s office or online through the Panama Compra website.

This 4 step process is used for nearly every type of government procurement. In cases considered urgent and in the public interest, government agencies may be allowed to negotiate directly with any provider.

Most tender documents require the posting of a 10% bond of the total contract price by every bidder. When the contract is awarded, the losing bidders receive a refund.

Contracts are awarded by the governmental agency to the most qualified bidder with the best bid according to the requirements set forth in the tender documents. After the awarding of a contract the governmental agency and the winning bidder execute a formal contract following the terms and conditions set forth in the tender documents. This contract is then recorded and approved by the Comptroller General.

It is public policy for contracts performed in Panama to be written in Spanish, follow Panama laws, requires special courts to resolve any disputes which can only be appealed to the Panama Supreme Court. These contracts also provide that the governmental agency may terminate the contract at will by paying an indemnification to the bidder. These contracts also contain a diplomatic claims waiver when the bidder is a foreign person or entity.

The Panama Canal Authority has different rules concerning procurement of goods and services.

## **Contracts**

Concessions not falling into the above-mentioned procedures are awarded by contract. Known as a “contract-law” these contracts are negotiated and approved by the Executive Branch with further approval from the National Assembly who creates a special law protecting the foreign investor. It can only be amended by consent from the private company and enactment of a new law. Due to the length of time it takes for this process, the government reserves the right to use this procedure for large projects affecting national interest.

## IX. TAXES

### Income Tax for Individuals and Corporations

#### Corporate Income Tax

The only income which is taxed is derived from within Panama. The sale of products or services to people, entities, or companies in Panama are considered as "Panama source income" and taxed. The sales of products or services to persons, entities, or companies located outside of Panama are not taxed. Income derived from the leasing or sale of Panama real estate is taxed. Commissions and interest earned from loans financing business in Panama is taxed. Call centers have a special law exempting their earnings from income tax. Trading companies which invoice products which never enter Panama are not taxed. Companies in Panama who facilitate business activities conducted outside of Panama are not taxed.

**Interest Income Exempt:** Interest from savings and CD bank accounts from licensed Panama banks are exempt. Interest from debt securities registered with the National Securities Commission and listed on the stock exchange are exempt. Non-resident financial institutions and lenders who receive interest and commissions paid by Panama banks or for the construction of public housing are exempt from taxes.

**Income Tax:** Taxable income is derived from subtracting foreign source income and exempt income from the gross income.

**Deductions:** Business expenses used to generate taxable income or to preserve the business are considered as deductible from income taxes and must be documented and are only allowed in the same year they occurred.

**Income Tax Rates:** Starting in 2010, corporate tax rates were lowered from 30% to 27.5% and further reduced in 2011 to 25%. Companies involved in telecommunications, banking, power generation, manufacturing cement, casino and gambling activities, and insurance or reinsurance will continue to pay the 30% rate until 2012 when the rate lowers to 27.5% and in 2014 is lowered to 25%. If the government owns 40% or more of a company's capital will continue to pay the 30% rate. Companies involved in agriculture and small businesses have a special lower income tax rate.

**Calculation:** The traditional calculation of income tax is to simply multiply the net taxable income by the tax rate. Corporations with taxable income exceeding \$1.5 Million use a different calculation. Their rate is the higher between the traditional calculation and multiplying the taxable income by 4.67%.

**Monthly Payments:** Starting in 2011, all companies and entities must pay their estimated income tax by the 15<sup>th</sup> of every month equal to 1% of the total taxable income accumulated the prior month. This is called “Monthly Income Tax Advance” or “MITA”. Companies engaged in gasoline, oil products, pharmaceuticals, food, and medical products pay a different MITA. At the end of the tax year, the company determines the total income tax and deducts the total MITA paid. If the total MITA paid is larger than the actual tax owed, the company can obtain a tax credit to be used towards future MITA’s.

**Losses:** Losses can be carried forward 5 years as long as the loss doesn’t exceed 20% of the total loss in any year. Certain regulated industries such as mining have special loss schedules.

**Annual Returns:** Income tax returns must be filed by companies within 3 months after the fiscal year ends. While most company tax year is the calendar year, companies can petition for approval of a different fiscal year.

## Individual Income Tax

Individuals who earn less than \$11,000 per year pay no income tax. Those earning between \$11,000 and \$50,000 pay a 15% tax rate while those earning \$50,000 or more pay a 25% rate.

**Deductions** for married couples are \$800 with their joint tax return. Mortgage interest paid on the primary home can be deducted up to \$15,000 yearly. Student loans interest payments for the taxpayer’s or dependents’ education in Panama are fully deductible. Health insurance premiums are deductible. Contributions to private pension plans not exceeding 10% of the individual’s gross yearly income to a maximum of \$15,000 yearly are deductible.

**Foreign Residents:** Foreigners who reside in Panama for more than 183 days per year and earn income in Panama will be taxed at the same rate as nationals.

**Annual Returns:** Individuals must file their annual income tax return before March 15<sup>th</sup>. Individuals whose sole source of income is a single salary are exempt for having to file an income tax return as the employer withholds part of each payment for taxes.

## **Social Security Tax**

Employers and employees pay social security taxes when the employee is paid. Currently, the employer will pay 12.25% and the employee will pay 9.75%. Employers are required to withhold a percentage from each employee's pay for income tax and for social security tax. Failure to withhold and make payments to the Social Security Office will result in surcharges, fines, and even criminal prosecution. There is also a professional risk premium paid to the Social Security Office corresponding to a perceived risk the work entails which is withheld from an employee's salary.

**Educational Tax:** An additional 1.25% of an employee's wages are withheld as an "educational tax" while the employer pays 1.5%.

**Non-Residents:** Employers are required to withhold income taxes from non-residents who earn Panama source income. The Income Tax rate for individuals is used without deductions. However, if the non-resident earns income outside of Panama, but the Panama employer wants to deduct these wages from his income tax, the non-resident will only have half of the total amount paid subject to the withholding tax. The employer is required to pay the tax authorities the withheld amounts within 10 days following the payment.

## **Capital Gains Tax**

The capital gains tax rate differs by the type of property being transferred. Only properties located in Panama are subject to the capital gains tax. The standard rate is 10% of the realized gain from the sale.

Transfer of shares of a Panama entity that obtains Panama source income requires the buyer to withhold 5% of the purchase price for the tax officials within 10 days. This is considered as an advance of the seller's capital gains tax. The seller can declare the 5% to be the total capital gains tax or if the amount exceeds the normal 10% rate of the actual gain, the seller can claim a tax credit for the excess amount when the annual tax return is filed. A Panamanian entity whose exclusive income is obtained from non-Panama sources (outside of Panama) is exempt from the capital gains tax.

Transfer of shares from a Panama entity that are registered with the National Securities Commission through a licensed stock exchange are exempt from paying the capital gains tax even if the entity obtains Panama source income. Therefore, selling shares through the stock exchange is exempt from the capital gains tax. Mergers and reorganization of Panama entities registered with the National Securities Commission and listed on the stock exchange involving transfer of shares are also exempt from the capital gains tax if they meet specific requirements. Tender offers as defined by the securities regulations are not exempt and the purchaser must withhold 5% of the total purchase price as the capital gains tax.

**Real Estate:** Panama real property transfers involving persons considered to be in the business of selling and/or buying real estate are subject to the capital gains tax. Such persons are considered real estate dealers who sell 10 or more properties within a year. Their capital gains tax rate is 10% of the realized gain from the sale. Prior to the recording of the deed, the seller is required to pay the tax officials 3% of the larger amount between the sales price and the recorded property value as an advance of the capital gains tax. Similar to the sale of shares, the seller can claim this payment was in excess of the actual capital gains tax on the realized gain and receive a tax credit on the difference. This tax credit can be used to pay other taxes, be converted into cash by the tax officials, or transferred to 3<sup>rd</sup> parties. Starting July 1, 2010, the capital gains tax rate will be reduced to 3.75% of the larger amount of the sales price or the registered value of the property.

## **Dividends Tax**

There is a 10% dividends tax made by entities that have a commercial operations permit and have Panama source income. The dividend tax is only 5% if the earnings come from foreign sources, is export related, or other specific laws

exempting the income. Companies located in the free trade zones pay a 5% dividend tax for all income. The entity making the dividend withholds the tax and pays the tax authorities. There is no income tax on those receiving dividends. Dividends paid to holders of bearer shares must pay a 20% dividend tax.

**Retained Earnings Tax:** If no dividends are paid or paid dividends are less than 40% of the current Panama sources after tax earnings, there is a 10% tax for the difference between the 40% and what was paid. If no dividends are paid or paid dividends are less than 20% of foreign source income or specific exempt income, there is a 10% tax for the difference between the 20% and what was paid. This tax is known as the “complimentary tax” (impuesto complementario) is credited towards future dividends and can be seen as an advance of the dividend tax in relation to the 40% or 20% of the current earnings. Registered subsidiaries of foreign corporations pay this tax on their total current earnings without regard if any distribution was made.

## **Commercial Permit**

All persons and entities engaging in business activities within the Republic of Panama must obtain a commercial operation permit (“Aviso de Operacion”) which is issued by the Ministry of Commerce and Industry. The annual tax for the permit equals 2% of the company’s net worth with a maximum payment of \$60,000. Companies located in special economic or development zones within free trade zones pay a rate of 1% at a maximum payment of \$50,000.

## **VAT**

Value added tax is known in Spanish as the “ITBMS” or sales tax in other countries. This tax applies to imported goods, products sold or services rendered in Panama. The importer, seller, or service provider pays this tax whereby most simply add this tax to be paid by the consumer. Beginning July 1, 2010 the ITBMS increased from 5% to 7%. Higher rates exist for the sale of alcoholic drinks (10%), tobacco products (15%), and specific services such as housing services (10%).

Exceptions to paying this tax include free trade zone transactions, power generation & distribution services, cargo and passenger transportation by sea, air, or land. Most businesses pay the tax monthly.

## **Importing Products**

Products imported into Panama which are not exempt by law or by international trade agreements are subject to import tariffs and the ITBMS tax. The import tariffs differ by products and are set forth in a tariff line system.

## **Real Estate Taxes**

### **20 Year Property Tax Exoneration**

All newly constructed residential buildings will be exempted from paying property taxes for 20 years from the date of the occupation permit.

This exoneration only applies to the improvements and not the land.

Since the exoneration applies to the property and not the owner, the remaining years will continue with the property after it is sold.

If the land is worth more than \$30,000 USD then the property tax will apply.

**Note:** If the property developer failed to file for the 20 year exoneration or if you purchase a newly constructed home from a seller who did not file for the exoneration you must do it yourself. Go to the Exonerations Department at the Ministry of Economy with a copy of your public deed and apply for the tax exoneration.

### **Those properties subject to the Property Tax:**

Property Tax applies to the value of the land and all registered improvements. The standard property tax rate begins at a value of \$30,000 up to \$50,000 having a rate of 1.75% while the rate is 1.95% between \$50,000 and \$75,000 with everything over \$75,000 at a 2.1% rate.

There is another “alternative progressive” rate which applies to existing properties in good standing where the taxpayer submits a sworn statement for a new value based on a certified appraisal company. Properties with occupancy permits issued before July 1, 2012 shall be taxed at this rate as long as the improvements were filed at the Public Registry by July 1, 2011. New construction with building permits issued after July 1, 2010 with improvements registered within one year after the issuance of the occupancy permit. Additionally, the land value must be updated if it has been more than 5 years from the time the improvements were registered. This rate is at 0% up to \$30,000 for the land and improvement value and 0.75% between \$30,000 up to \$100,000 and from \$100,000 the rate is 1%. Plots of land where condominium buildings sit incorporated as “horizontal properties” with a condo owner's proportionate value in the land not exceeding \$30,000 will be at a 0% rate. Otherwise the land will be taxed at a 1% rate.

Real Property Transfer Tax has a 2% of the greater of the total value of the sale or the registered value plus the value of the improvements plus 5% for each year since obtaining the property and the sale.

## **City Taxes**

Municipalities can levy taxes on their own, but are not considerable.

## **Other Taxes**

Stamp taxes can be applied based on the value of certain documents, such as contracts. Panama banks and some financial institutions pay a yearly tax based on the type of institution or total assets. There is a 5% tax applied to the issuance of specific insurance policies.

Regulated industries such as free & paid television, telecommunications, power generation, banks, insurance and reinsurance companies, and securities companies pay a yearly regulatory fee called “tasas” in an amount regulated by law.

## **Tax Incentives**

Certain industries receive tax saving incentives to encourage foreign investors such as agriculture, tourism, mining, exporting non-traditional goods, power generation, construction and operating government concessions, processing and storing oil related products, maritime, manufacturing, and reforestation.

Anyone who invests \$2 Million or more in specific activities and meets certain requirements can apply to the Ministry of Commerce and Industries to have the investment included in the Registry of Investments. Inclusion will allow the investor to have 10 years of customs, tax and labor stability.

## **Avoiding Double Taxation**

Panama continues to negotiate and sign tax treaties with other countries to avoid their citizens investing in Panama to face income taxes from both countries on their Panama source income. Basically, a double taxation treaty allows full credit of the investor's income taxes paid to Panama towards any income taxes owed back at home based upon the Panama source income.

## **X. OWNING AND LEASING REAL ESTATE**

Foreigners have the same rights and protections as Panamanians when purchasing real property.

The U.S. Embassy published a report, U.S. GOVERNMENT REPORT ON BUYING PANAMA REAL ESTATE: "Titled land, and the process of buying this, is similar in concept to that in the U.S., and land and deeds are duly recorded with the Public Registry".

## **Titled**

Titled property is similar to "fee-simple" title in the United States and is the most secure form of real property ownership in Panama. The Constitution of the Republic of Panama guarantees the right to own private property. Titled properties measured and properly recorded in Panama's Public Registry office verify one's real property "title". These verifiable, guaranteed rights allow banks to issue mortgage loans for titled properties by registering liens against one's title as collateral.

Anyone of legal age can purchase titled real property in Panama. The only limitations for foreigners are land within 10 kilometers of the national borders.

**Condominiums:** Panama's condominium law is called the "horizontal property regime" which regulates owners' rights when owning an apartment in a building built on commonly used land. This law separates privately owned areas from common areas such as a swimming pool, elevators, and reception area and regulates what owners can do with each area. The law requires regulations to be created which must be approved by the Ministry of Housing ("Ministerio de Vivienda") and filed with the Public Registry. The regulations must include designating the building manager, duties of the board of directors, property owners meetings quorum and votes needed to pass resolutions, usage for each unit (living or commercial), rules for moving in and out, having an annual budget, maintaining meeting records, and audits. These regulations can only be changed by a vote of more than a majority of owners. Once the regulations are filed with the Public Registry, the homeowners association has the right to file lawsuits. Regulations normally are not filed until a minimum percentage of the building has been completed.

## **Concessions**

Concession property is similar to a land lease arrangement, common in Mexico or Hawaii. This is where the government grants a Concession to an individual or an entity for a specific purpose, such as a real estate development, hotel, or marina. Most Concessions in Panama are granted for a maximum of 20-year (renewable) periods. However, some Concessions are granted for up to 40 years (renewable) in specially designated areas such as the Amador Causeway where there are commercial and condominium developments currently being sold. Concession Property exists in special coastal or other governmentally protected areas where actual title is prohibited by law. In many cases, real estate developments on Concession properties offer investors time-share or fractional ownership arrangements, which are very common in Mexico and other resort-type coastal areas around the world. The government through a specific contractual agreement guarantees Concession property. Therefore, there is very little risk to the investor. Title insurance companies generally offer title policies for Concession properties.

## **Transferring Title**

### **Titled Property**

Purchasing titled property is simple by following these procedures:

- a) Negotiation: If you are dealing through a real estate agent, make sure all of the terms and conditions are clear and in writing. Make sure that the written contract clearly sets forth the payment amounts and dates. If you are dealing directly with the seller, understand all terms before hiring an attorney to prepare the written contract.
  
- b) Promise to Purchase Contract: Instead of a Purchase & Sale Agreement (common in the United States), the buyer and seller initially sign a Promise to Purchase (the property) Contract. A small down payment when signing a written Promise to Purchase Contract secures the property while the buyer conducts a title search to verify the seller's ownership. In the meantime, the purchaser arranges for financing (if not paying fully in cash) and setting up a corporation (if applicable) to hold title. Register this contract at the Public Registry to prevent the seller from selling the property to another party prior to the Closing.

- c) Title Search: Once you sign the Promise to Purchase Contract, you should hire a competent attorney to conduct an investigation of the seller's title at the Public Registry. The lawyer will also verify that the property is free and clear of any encumbrances, liens, and other issues affecting transfer of title. Title Search also includes reviewing the catastral survey map. In many cases, a professional surveyor will verify the map points on the property to avoid future boundary conflicts. Finally, have your lawyers verify the main utility debts (water & sewer) with the government agency providing them (IDAAN).
  
- d) Buy-Sell Contract: Upon conclusion of the Title Search, the parties sign a formal Buy-Sell Contract (also known as Public Deed of Title Transfer) The escrow agent pays the seller's final balance and transfers title into the buyer's name. Use an established escrow company to protect both parties.
  
- e) Title Transfer: This process is known as the "Closing" in the United States. Property ownership officially transfers to the buyer when both parties sign the Buy-Sell Contract (Public Deed of Title Transfer) and registers it with the Public Registry. If title is in a corporation's name and the buyer chooses to, the seller merely transfers the corporation's shares to the buyer without transferring title. In order to facilitate the Closing by assuring the seller will be paid and the buyer will receive full title the attorney prepares a "Promise To Pay Letter" from a local bank. This letter guarantees full payment to the seller when the Title Transfer registers at the Public Registry.

**Problem Solved:** The "Promise To Pay Letter" solves a typical Closing problem. Sellers usually require full payment when they sign the Public Deed of Transfer prior to the actual registration of Title Transfer at the Public Registry. There have been instances when the seller received full payment, but the Deed was not registered (or the government rejected the deed). The buyer did not become the new owner because there was no record of the title transfer in the Public Registry.

The “Promise To Pay Letter” guarantees payment to the seller by a local bank while assuring the buyer that payment is not made until actual transfer of title.

## **TITLE INSURANCE**

Even though Panamanian laws are setup to protect foreign investors, investors should always take precautionary measures to insure their investment. Title insurance is readily available in Panama through major international title insurers, such as LandAmerica Lawyers Title and Chicago Title. Title insurance is available for titled and concession properties. Title policy costs are minimal and the peace of mind is definitely worth the cost.

## **Mortgages**

Panamanian banks welcome foreigners applying for mortgages. Yet, they require a lot of information and documents before granting a loan.

The easiest properties to acquire financing are titled with improvements, existing infrastructure and located in either an urban or a developing area. A mortgage for raw land with little or no infrastructure, no improvements, located away from populated areas is difficult. Chances are the bank will decline the loan unless there is an established credit history with the bank or substantial assets on deposit with the financing institution.

**Down payments** are usually around 30% of the purchase price (or appraised value).

**Terms and rates** are very similar to the United States and Canada. However, the application process differs greatly.

In North America, financing is all about the applicant’s credit history and ability to pay. In Panama, it is all about the applicant’s ability to pay and loan-to-value ratio. Panamanian banks require lots of documentation proving income and the true value of the property. Since the banks do not know the foreign applicant, expect a long, tedious process requiring lots of documentation and organization.

**Be Prepared** is the first rule when applying for a mortgage in Panama. Here is a list of typical documents required by Panamanian banks for a mortgage:

- Complete, signed bank mortgage application & agreements
- Photocopy of your entire Passport (Certified copy if not present at bank)
- Photocopy of one additional photo ID (like a Driver's License)
- Recent Utility Bill (showing your name and physical address)
- Credit Report (from companies like Experian, Equifax, or TransUnion)
- Curriculum Vitae (your education & work history)
- Two (2) original bank reference letters
- Two (2) original professional or commercial reference letters
- Photocopy of bank statements for the last 12 to 24 months
- Last two (2) years income tax returns (or audited financial statements)
- Letter explaining your income sources & reason for purchasing the property
- Proof of Immigration status (if in Panama longer than Tourist visa period)
- Appraisal of the property (from a bank-approved appraiser)
- Purchase contract and Down Payment receipt
- Title deed of the property filed with Public Registry before funds released

Most banks require all documents originating outside of Panama be “authenticated” either through the nearest Panamanian consulate, or by “apostil” which is an internationally recognized form of notary/certified authentication.

**Self-Employed** applicants are also required to provide:

- Company Information (name, phone numbers, physical address, web URL)
- When & Where company was created
- Type of business the company engaged in and type of market
- Financial Statements for past two years (Audited)
- Reference Letters from two companies you did business with
- Bank Reference Letters for the company (Originals from two banks)

**Know Your Customer** is the battle cry of banks worldwide, which is why the reference letters vouching of good character re important.

**Life Insurance** is also required with the bank being the beneficiary for 100% of the loan amount. Since the policy is based on the applicant's life expectancy, it is more expensive the older the applicant is.

**Fire Insurance** policy is required on the structures for at least 80% of the loan amount.

**Be Patient.** It takes time to meet with bankers, complete applications, translate and review agreements, organize the documents, and seek an attorney's opinion. In addition, applicants may end up visiting several banks, as some may not provide mortgages in the region you wish to purchase.

**Pre-Approval** of the mortgage is an easier process in other countries and only recently discovered in Panama. Foreigners opening personal bank accounts with credit cards with a Panama bank establish a credit history. When the applicant is ready to look for properties visit the mortgage department or private banking official and go over what type of mortgage the bank can provide based on income expectations, other resources, available down payment, and current mortgage rates. The bank will not guarantee a mortgage but can give the applicant positive feedback regarding the maximum prices of the home you seek.

**The Process** for approving a mortgage entails:

- (a) Filing of the sale deed conveying ownership in the Public Registry with a copy brought to the bank; and
- (b) Filing the loan as a mortgage lien on the property in favor of the bank.

In essence, the bank does not disburse the funds to the seller until the bank's security is in place.

**The Deed's** structure is usually like this:

- (a) Release of any existing mortgage on the property by the issuing bank;

(b) Sale terms in the Deed whereby seller and buyer indicate how much the seller receives from the mortgage and down payment; and

(c) Mortgage documentation pertaining to the loan the buyer receives and the mortgage amount the bank levies on the property.

**Things to Watch Out** for in the loan documents include the late payment penalties. Sometimes, there will be a 2% interest rate increase for a late payment. There are no “grace periods”. If the borrower is a day late, he/she is penalized. Also, watch out for a clause requiring payments to a “designated branch” instead of by internet banking or auto-debited from the borrower’s account.

**Branch Managers** are not reliable sources for information about mortgages. Talk to the loan department at the bank’s headquarters.

**Higher rates:** Commercial properties and those used for businesses will pay a higher mortgage rate than purely residential purposes. Getting a mortgage at the time of purchase will be cheaper than obtaining a mortgage after owning it.

**Pre-Payment** of the mortgage before the term expires is usually acceptable with banks in Panama. Make sure there is no pre-payment prevention clause in the loan agreement. Most banks prefer a shorter term like 10 or 15 years rather than the 30-year mortgages common in other countries.

**Foreclosures** occur in Panama. The bank will only be entitled to keep the outstanding loan balance plus expenses when foreclosing and forcing the sale of a home.

**Even Corporations can get mortgages.** Banks will loan money to a corporation owning real estate and attach a mortgage onto the property. If the real property is the only asset of the corporation, the seller only needs to transfer ownership in the corporate shares. This will save money by avoiding the 2% real estate transfer fee. The corporation’s principals may have to personally guarantee the loan and take out a life insurance policy naming the bank as beneficiary.

**Mortgage Brokers save time.** Meet with a competent mortgage broker who can assist with choosing the right lender, understand the rates and fees, and the legal & application process. A little time & effort with the right documentation makes obtaining a mortgage a reality in Panama.

## Leases

Real estate leases are governed by the Civil Code and special laws.

Residential Leases are divided into two categories: monthly rents up to \$150 and those over \$150.

**\$150 or Less:** The Leasing law gives specific rights to the tenants such as requiring a new buyer for the property to respect existing leases. These leases are for a minimum of 3 years and renewable indefinitely as long as the tenant keeps up with the rental payments. Tenants can terminate the lease at will by simply giving the landlord a 30 day prior notice. Rents can't be raised without prior approval from the Ministry of Housing.

**Over \$150:** Both parties have the freedom to contract lease agreements with a few requirements by law.

Commercial Leases can also be terminated by the tenant with a 30 day prior notice.

Lease Agreements should contain these clauses: the right of the tenant to terminate the lease term with written notice delivered at least 30 days in advance; a right to sublease (landlord may require prior approval of new tenant); one month's rent deposited with the Ministry of Housing as a damage deposit or last month's deposit (if a yearly lease, then one year's rent); the right of the tenant to practice his profession in the unit unless it disturbs the neighbors or is in violation of the law. All lease agreements are required to be registered with the Ministry of Housing using forms provided by the ministry. Leases for 6 or more years must be prepared as a public deed and notarized. Residential and commercial lease agreements can be filed with the Public Registry to give notice to 3<sup>rd</sup> parties that the lease exists. 20 years is the maximum term for a lease. If the tenant continues to remain after the lease expires it is considered a "holdover" implying a continuation of the lease after expiration. Then the lease become indefinite which can be terminated at any time by either party.

## **DEVELOPING REAL PROPERTY**

### **How To Develop Property In Panama**

Many foreigners come to Panama seeking real estate investment opportunities. Some come to only purchase one or two properties. Others come to make serious profits by developing Panama's vast landscape. Whether you plan to develop a small real estate project or a hundred private home lots, you need to understand the laws and process for real property development in Panama.

**TOURISM INVESTMENTS:** Besides condos and homes, many investors take advantage of Law 58 Of 2006 which offers incentives for developing lodging facilities within 10 Special Tourism Zones. A minimum \$3 million investment is required in the Panama City metropolitan area while only a minimum investment of \$50,000 is required outside of Panama City. The incentives include income tax exemptions, a 20 year property tax exemption, and exemptions on duties for importing materials, equipment, and vehicles for tourism development.

**Permit Process:** Panama's permit process is similar to those found in the United States and Canada. Topographical surveys, using architects, developing a Master Plan, hiring engineers, and preparing an Environmental Impact Study are necessary for the permit process.

**Government Agencies:** The Permit process requires submission of all plans and documentation with the appropriate governmental agencies. Then you must do constant follow-up with them. The eight government agencies are:

1. **ANAM** (Autoridad Nacional del Ambiente - Environmental Enforcement Agency): ANAM is the government organization that oversees environmental enforcement. You must hire an environmental engineer to perform an Environmental Impact Study (EIS) on the project. The EIS takes around one month to complete and approximately 3 months for approval.

2. **ATP** (Panama Tourism Authority): If the project is solely "residential" and not "tourism related" you will not need ATP. The ATP approvals are important to qualify for Law 8 benefits (explained above) which grants tax exonerations for the hotel and other tourism related businesses. These ATP approvals are relatively easy to obtain. When the project contains all the studies and other permits, you

submit the plans for review by ATP's architect. The ATP application costs are minimal.

3. **MIVI** (Ministerio de Vivienda - Ministry of Housing): The MIVI is the governmental organization that approves the zoning of the project. In very rural areas not having any specific zoning laws, zoning is not an issue. You can get the plans of the pre-project permitted through MIVI quickly for zoning purposes (approx. 1 to 2 months). Please note that this permitting cannot take place until the property is purchased. The MIVI approval costs are minimal assuming you have the architectural Master Plan completed.

4. **MOP** (Ministerio de Obras Publicas - Ministry of Public Works): The MOP is the governmental organization that approves roads, drainage, sidewalks, etc. Usually, once MIVI approves the project, MOP approves it as well. Please note that MOP requires specific details of the road and drainage plans completed by a qualified engineer. The MOP approval costs are minimal.

5. **MEF** (Ministerio de Economia y Finanzas - Ministry of Economics & Finance): The MEF is the governmental organization that oversees taxes and fiscal issues, such as property taxes, income taxes, etc. You need to hire a licensed economist to prepare a study on the estimated financial projections of the project (cost is approx. \$2,000) submitted to the MEF, who then provides a resolution of approval. This is simple and takes only 2 to 6 weeks to obtain. The costs for the MEF approvals are minimal.

6. **MICI** (Ministerio de Comercio y Industrias - Ministry of Commerce & Industry): The MICI is the governmental organization that oversees business operations and business permitting. The development company needs to obtain a business license as a developer of real estate, which is fairly simple and straightforward. It only takes about 4 to 6 weeks to obtain this. The costs for the MICI license are minimal.

7. **Bomberos** (Fire Chief): The Bomberos of the area reviews the architectural plans (primarily the electrical plans) and makes a physical inspection of the area. Once they determine that there are no fire hazards, they issue a resolution of approval of the project, normally in conjunction with or after the Municipal permits are issued. The costs for the Bomberos permits are included in the Municipal permit costs.

8. **Municipio** (Municipality): The Municipality is the government organization that oversees municipal issues of the city or town where the project is located. Submit

the master plan and all construction drawings to the municipality. The costs for the Municipal permits vary with each Municipal office. In general, the Municipal construction permitting costs range from 1% to 2% of the construction costs (of structures or homes), and can sometimes be negotiated down with the Mayor. If you have the right contractor with the right connections with the municipal offices, the construction tax can be very low as they declare a lower value of construction costs.

With Permits in hand you are now ready to begin construction of your project.

## **XI. PATENTS, TRADEMARKS AND COPYRIGHTS**

### **Patents**

New and innovative inventions which can be applied to industries may register for a patent in Panama. Products and process or a combination or special usage of a product can apply for a patent.

The following are not considered inventions which can be patented: games, software programs, theories, scientific or business or economic principles, a sketch or design, presentation of data formats, and surgical or therapeutic or diagnostic methods.

The application procedure involves filing an application which will be reviewed by a panel of experts who will determine whether this is a new invention for industrial usage resulting from a creation of the applicant.

Once the panel approves, the applicant must request a 14 month study of the state of the art following the date of priority claimed. Once this study concludes the petition will be published for two months in the Industrial Property Bulletin. If there are no worthy claims or prior usage or objections to priority, the Industrial Property Office will grant the patent for twenty years from the filing date.

Once the Letters of Patent is granted there is no internal appeal process. There is a 10 year statute of limitations where an opposition lawsuit can be filed with the civil courts. The only exception to the statute of limitations is a claim that the patent application was made in bad faith.

There is an international Patent Cooperation Treaty which Panama is not a member.

Utility models will use the same procedures described above needing to only prove that it is new and applicable to industrial use to qualify for a 10 year period.

Industrial Designs are automatically protected for two years once divulged preventing 3<sup>rd</sup> parties from copying or using similar designs. The inventor can apply for a 10 year protection from the application date with a five year extension by registering with the government.

## **Trademarks and Trade Names**

Anyone carrying on with a business in Panama can apply for a trademark of the products or services or a trade name (including a logo).

The process for obtaining trademark or trade name protection involves choosing a unique, non-generic mark or design. Conducting a search at the Industrial Property Registry for its availability to determine there are no similar marks or designs registered. File an application which protects the trademark or trade name for 10 years. An application for renewal must be made at least one year before expiration and can be renewed indefinitely.

Trademarks and trade names can be licensed to 3<sup>rd</sup> parties as long as the license is registered to protect the owner. Sublicenses can only be granted if allowed in the original license agreement.

## **Copyright**

Intellectual creations are automatically considered copyrighted. This includes photographs, art work, computer programs, educational or scientific works, audiovisual, literary or artistic works, architectural renderings, and folklore.

Copyright authors are considered to be the original writer or creator. The Ministry of Education grants copyrights which remain in effect for the author's lifetime plus 50 years. Commercial rights to any copyrighted work may be granted to 3<sup>rd</sup> parties as individuals or entities as long as it is in writing.

## **Registering Intellectual Property Rights**

Patents, utility models, industrial designs, trademarks, trade names, and copyrights can also be registered at the Colon Free Trade Zone and the Customs Office. Registration allows government officials to inspect and seize products suspected of infringing upon these rights.

## **Internet Domain Names**

Domain names are registered with the Nic-Panama (PANNET) administered by the Technological University of Panama. Annual renewals are required. The Panama country code is .pa

## **XII. LABOR LAWS**

### **Creating an Employment Position**

Employees can be hired under a written or oral contract. Under an oral contract the employee can assert certain conditions exist that the government will presume to be true unless the employer can successfully challenge them. Therefore, a written employment contract protects the employer.

The definition of “employment” includes whether or not the alleged employee is subordinate or economically dependent upon the employer. Independent contracts whereby the services of an individual or company are contracted out with no subordination (such as required working days and hours) can also be created.

## **Contracts**

Employers are free to hire workers for unspecified time period, limited time period, or for a specific project.

Limited time contracts must be for less than one year. The contract is invalid if it is used to temporarily fill a permanent job.

Specified time contracts cannot be for more than one year.

Special skilled workers contracts can be up to a maximum of three years. Workers hired for their special skill or agility the contract can be written to stipulate up to three months probation period. During the probation period the employer can dismiss the employee for any reason.

## **Wages**

Base salary can never be below the minimum wage set by the government for specific jobs in certain geographical areas. For example, the minimum wage for financial endeavors in Colon or Panama City is \$1.57 per hour.

Wages can be paid for hourly, daily, weekly, or monthly work; or by project or percentage of total tasks to perform.

Bonuses are not wages and can be freely given or denied by the employer. Bonuses will be used to calculate maternity or annual leave and seniority bonuses.

Wages are subject to social security taxes and educational insurance fund unless exempt for the Social Security System law or the Labor Code.

## **Hours**

Day work occurs between 6 a.m. to 6 p.m. and night work occurs between 6 p.m. and 6 a.m. These are considered the day shift and the night shift. A mixed shift

can occur whereby working for more than three hours in the night period is classified as a night shift.

Eight hours is the maximum for the day shift with a work week maximum of 48 hours. Seven hours is the maximum for the night shift with 42 hours maximum for the night shift. A mixed shift incurs a maximum of 7 and a half hour per shift and a maximum of 45 hours per week.

Overtime occurs when an employee works longer hours per shift or week than stated above. The overtime pays 25% of the usual wages for day shifts and 50% of the usual wages for the night shift or mixed shift beginning in the day but going into the night. Overtime will pay an extra 75% of the usual wages when the night shift is extended or the mixed shift begins in the night.

## **Taxes**

All wages paid for service occurring in Panama are subject to income taxes. Employers are required to withhold income taxes from salaries and other compensation paid to employees who have worked a minimum of one week. The income tax officials have charts defining the percentages of required withholding. Monthly withheld funds are paid to the National Treasury via the Social Security System by the fifteenth day of every month.

## **Holidays**

The following days are holidays or days of mourning which are paid days off for all employees: New Year (January 1<sup>st</sup>), Martyrs Day (January 9<sup>th</sup>), Carnival Tuesday (Mardi Gras Fat Tuesday), Labor Day (May 1<sup>st</sup>), Independence from Colombia Day (November 3<sup>rd</sup> & 5<sup>th</sup>), First Cry for Independence Day (November 10<sup>th</sup>), Independence from Spain Day (November 28<sup>th</sup>), Mother's Day (December 8<sup>th</sup>), Christmas Day (December 25<sup>th</sup>). Working on a holiday incurs a 150% of the usual wage supplement.

An unpaid day off one day per week is required (usually Sunday).

Every employee receives a 30 day paid annual vacation after working continuously for 11 months.

## **13<sup>th</sup> Month**

All employees receive a special bonus called the “13<sup>th</sup> month” equal to one month’s salary every year. The bonus is calculated at one day’s pay for every 11 days worked to be paid in three equal installments: April 15<sup>th</sup>, August 15<sup>th</sup>, and December 15<sup>th</sup>.

## **Worker’s Comp**

Accidents or sickness occurring at the work place qualifies for worker’s compensation administered by the Social Security System. The amount which the employer pays into this system varies according to salary and calculated risks the job entails. The rate paid is between .98% up to 5.6% of the salaries,

The law protects the employer from civil lawsuits from employees injured or sick at the work place or occurring when performing employment. However, if the employer created an occupational hazard which caused the accident or illness through negligence or error, the employer can be liable for a tort.

The employment contract is suspended while the employee recovers from the injuries or illness as long as it is not permanent.

## **Social Security**

Every employee, including foreigners, is subject to the social security system.

Both the employer and the employee contribute to this system. Employers contribute 11.5% until December 31, 2010 whereby the rate increases to 12% until December, 2012 and increases to 12.25% on January 1, 2013.

Employees contribute 8% until December 31, 2010 and then 9% from January 1, 2011 to the end of December 2012 and will pay 9.75% on January 1, 2013.

These withheld funds are paid monthly to the Social Security Administration.

The Social Security System offers the following benefits: (a) medical, dental, & hospital coverage; (b) maternity leave; (c) disability payments; (d) worker’s compensation; (e) retirement pension; (f) death benefits; and (g) funeral assistance.

## **Wellness and Security**

Employers are required to take reasonable steps to protect the lives and health of the employees by following the rules issued by the Labor Department, Social Security Administration, and any other relevant government agency. The Labor Code also has requirements employers must comply with to protect the health and safety of the employees.

## **Pregnant Employees**

The Labor Code has clauses which protects women workers. Pregnant women can only be fired by a good reason and with court approval.

The Labor Code also requires paid maternity leave for six weeks before childbirth and for eight weeks after. The rest period cannot be less than 14 weeks. If the birth is delayed, the woman is entitled to the 8 weeks rest following the birth.

Upon the time the woman returns to work after the child's birth and for one year's time, she can only be fired by a good reason and with court approval.

## **Foreigners**

90% of the workforce must consist of nationals, foreigners married to citizens, or foreigners legally residing in Panama for at least 10 years. Employers may hire foreigners as experts or technical workers up to a maximum of 15% of the total workforce. Exceptions to these quotas can be applied for with the relevant ministry approved by the Ministry of Labor and Social Welfare. Such authorized work permits are issued for one year periods up to a maximum of 5 years.

A special immigration temporary visa allows the hiring of foreigners without the limits created by the Labor Code. A Special Temporary Visitor Visa issued by the Immigration Department exists for foreign executive whose salaries are not paid from Panama sources. These executives cannot work in Panama for a Panama company unless the work has no effect within Panama. These executives are exempt from paying income taxes and making social security payments.

## **Termination**

There are 4 ways for an employment contract to be terminated: (1) employee resigns; (2) the contract time expires; (3) mutual agreement by the parties; and (4) the employer fires the employee.

1. Employee resigns voluntarily by delivering a written notice of resignation which is ratified before an administrative labor official.
2. Upon arriving at the date of expiration written in the employment contract without an agreed upon extension the employment relation terminates.
3. Mutual agreement by the parties in writing without waiving any accrued rights will terminate the employment contract.
4. Employer fires the employee. If the employee has been working for less than two years, the employer can fire him or her without cause. The employer must deliver a written notice of dismissal 30 days in advance or pay an amount equal to 30 days salary and pay an "indemnification of unjust dismissal" (3.4 weeks pay for every year of employment during the first 10 years, plus one week's salary for every year thereafter).

Employees with more than two years employment can be fired only for just cause. Employers wishing to fire a 2+ year employee without cause can negotiate a mutual agreement offering compensation described above.

**Just Cause** is defined by the Labor Code which sets forth 16 causes. Just cause termination relieves the employer from paying indemnification to the employee. To summarize them in 3 categories:

1. **Bad Acts** by the employee which includes violence, making threats, or poor treatment while working towards the employer and/or his family, management, or co-workers; except if done in self-defense. The employee, without authorization, reveals industry, business or technical secrets or confidential information may damage the employer. While working the employee commits a serious deceitful or disloyal act or a criminal act against property which harms the employer. Failure to show up for work without permission or good cause, two Mondays during a month, six in a year or for 3 days in one month of employment.

2. **Situational** where the employee is has a mental or physical condition making it impossible to work; or the passing of one year from the time the employment contract is suspended due to illness of non-working accident; or an Act of God which prevents the employer from working.

3. **Economic Conditions** such as employer's bankruptcy or insolvency; business closing or reduction of work due to obvious profit loss; or repression of work intrinsic to the nature of the job. Examples of repression of work include serious economic downturn, failure to meet operating costs due to production decrease, cancelled sales orders, loss of major clients or customers, or any other economic condition verified by a competent official.

Written notice of termination is required specifying the reasons. In cases based on economic conditions, the employer is required to obtain authorization from the Ministry of Labor being able to prove the economic reasons exist. If the Ministry of Labor has not made a ruling after 60 days from the petition being made, the employer can go ahead with the termination. In this situation, the employer must pay the terminated employees indemnification.

## **Bonuses and Severance Pay**

Seniority Bonus is paid to an indefinite period employee in spite of the reason for termination at a rate of one week's salary for every year of employment.

Employers must create a severance fund ("fondo de cesantia") to pay employees with indefinite employment contracts when the employment terminates, as well as, for the seniority bonus and indemnification for improper dismissal. Employers are required to pay into the termination fund every three months for the seniority bonus and 5% of the monthly quota for the indemnification an employee might be entitled to in case of unjustified dismissal. These funds will be deposited in trusts established with authorized private institutions who will administer the funds. Employers with 5 or less employees are exempt from creating this termination fund, except for employers conducting financial, insurance, or real estate businesses. These contributions are income tax deductible.

## **XIII. IMMIGRATION VISAS**

### **Friendly Nations Visa**

In May of 2012, President Ricardo Martinelli issued a Presidential Decree 343 declaring that citizens of 22 friendly nations could apply to become permanent residents in a fast track manner.

Since then, other Decrees have increased the number of friendly nations to 47 along with clarifying the requirements to apply.

The formal wording of this permanent residency visa is for "citizens of friendly nations with professional and economic ties with the Republic of Panama".

#### **The 47 Friendly Nations are:**

Andorra, Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece,

Hong Kong, Hungary, Ireland, Israel, Japan, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Monaco, Marino, Montenegro, Netherlands, New Zealand, Norway, Poland, Portugal, Serbia, Singapore, Slovakia, Spain, South Africa, South Korea, Sweden, Switzerland, Taiwan, United States of America, Uruguay, United Kingdom (Great Britain & Northern Ireland).

### **Clarifying the Requirements**

The words “professional and economic ties with the Republic of Panama” means that citizens of these 47 countries must establish professional or economic relationship with Panama. This can be accomplished by starting a new business or purchasing an existing business or being hired to work for a Panama company.

An “Economic Activity” means the applicant owns either a Panama corporation or a Panama company (new or bought an existing business) which is doing business in Panama. Foreigners are prohibited from owning a Panama retail business.

Another option is to prove “Professional Activity”. Meaning the applicant is employed by a professional Panama company, has a work permit, and is registered with Panama’s Social Security system. In addition, proof of income like the employment wages needs to be provided by the employer. Documents proving these activities must be submitted. Foreigners are prohibited from practicing certain professions such as: medical & veterinary doctors, attorneys, architects, and engineers.

Proof of Economic Solvency is another requirement. This can be met by having at least \$5,000 USD (plus \$2,000 for each dependant) deposited in a Panama bank account. Whether an applicant is solvent enough is not clearly defined leaving the matter up to the discretion of the immigration officials.

Dependants include the spouse and children up to the age of 25 if they are full time university students. The applicant must provide a written letter of responsibility regarding the dependants. Every son or daughter dependant over the age of 18 must provide an authenticated being single certificate from their respective country.

After the application is filed along with all required documents the immigration office will issue a one year temporary residency card (carnet) which will be replaced by a permanent residency card once the application is approved.

Once the application has been approved, the foreigner can apply for a Work Permit. Panama’s president recently issued a Presidential Decree ordering

Panama's Ministry of Labor to fast track acceptance of work permits for the 47 friendly nations citizens.

## **Multinational Regional Headquarters**

Once the multinational company is licensed, key employees can begin to apply for their special immigration visas. Visa applicants must file many documents to qualify. Verification of job title and executive duties are required. Medical certificate of good health and proof of hospital medical insurance coverage assures the government that you are healthy and can pay for major illnesses. A police record from where you resided the past two years. Submit a bank reference letter and location of the Panama bank receiving salary payments. File a copy of marriage certificate (if married), and copies of dependants birth certificates. Present verification of certified schools where dependants will be enrolled. Tender a letter from applicant claiming full financial responsibility of all dependants who will not be employed in Panama. The corporate headquarters or nearest branch to Panama will file an original letter with corporate logo stating that the applicant will perform executive duties, including salary and a copy of the employment contract. Once these documents are filed, the immigration visa will be fast tracked for quick approval.

## **Business Investor Visa**

The Panama Business Investor Visa requires a minimum investment of \$160,000 in any legitimate new business, or a new setup corporation. Obtaining a commercial business license, registering with social security, and hiring 5 Panamanian employees paying their social security benefits and at least pay the minimum wage, are additional requirements.

Every Panama Business Investor Visa requires three 2-year temporary resident visas before becoming permanent residents.

Foreigners desiring to invest in a Panama business, with a minimum capital stock of One Hundred Sixty Thousand dollars (\$160,000) per applicant will be able to request the Panama Business Investor Visa, as shareholders or officers of said business.

Foreigners who apply for the Panama Business Investor Visa must prove that the minimum investment (US \$160,000 per applicant) is his/her own money. A foreigner can start up any type of legal business [Except for businesses reserved for Panamanian nationals, such as, lawyers and doctors].

If the Panama Business Investor has dependents, the Panama business investment must increase by Two Thousand dollars (\$2,000) for each dependent, which can be justified with a local Panama bank reference.

The Panama business must employ five (5) full time Panamanians (for each applicant), paid a salary at of at least the minimum wage established in the law for each region and detailing the position or activity that each employee carries out. The Panama business must register its employees in the CSS (Social Security).

## **Agricultural Investor Visa**

Foreigners through personal title or through a legal entity must invest the minimum sum of Sixty Thousand dollars (\$60,000), in a Panama agribusiness or Panama aquaculture industry to qualify for this visa. Such investments must be in areas that the Department of Farm Development considers being of national interest for Panama.

The investment increases by Five Hundred dollars (\$500) for each dependant. Proof of this additional investment must be provided to the National Service of Immigration by an original letter from a licensed Panama bank.

## **Tax Free Processing Zone Investor**

This program allows Panama foreign investors to obtain Panama legal residency under the condition that they must rent a plot of land or an office or building (rented through a 10 to 20 year concession) within one of the new tax free processing zones in Panama, for the purpose of operating a business from Panama that exports its products or services. This is a Panama Visa providing Panama legal residency for Panama foreign investors. All Panama Tax Free Processing Zones, including the Colon Free Trade Zone, investors qualify for this Panama Visa. Panama immigration officials welcome foreign investors who can generate business from Panama across the globe.

Since the turn-over of the US military bases in Panama, the Panamanian government has designated several of these areas as "Tax Free Processing Zones", with similar tax benefits as the existing Colon Free Trade Zone (the second largest distribution center in the world). These tax free processing zones have distinct tax advantages for operating manufacturing plants, assembly plants, software creation facilities, call centers, and other such businesses that export their products or services. These businesses also get a substantial tax break on a certain percentage of their products or services sold locally.

## **City of Knowledge Work Visas**

The Panama City of Knowledge Work Permit Program allows foreign investors to obtain employee Panama work permits for their company in Panama on the condition they must rent an office or building within the Panama City of Knowledge (located within the former Fort Clayton military base), for the purpose of operating a business from Panama.

Since the turn-over of the US military bases in Panama, the Panamanian government has designated part of Fort Clayton as the "Panama City of Knowledge", in attempts to attract foreign investment and businesses and offering similar tax benefits as the existing Colon Free Trade Zone (the second largest distribution center in the world).

Businesses operating from the Panama City of Knowledge have distinct tax advantages for operating manufacturing plants, assembly plants, software creation facilities, call centers, and other such businesses that export their products or services. These businesses also get a substantial tax break on a certain percentage of their products or services sold locally.

Foreigners that enter Panama as a researcher, professor, businessman, technician, or student with the purpose to contribute to the development of the Project of the Panama City of Knowledge Foundation, in agreement with the Decree Law 6 of 1999 will be able to request this Panama work permit.

There are 5 different visas available for foreigners working on the City of Knowledge: Researchers, Educators, Businessmen or Executives, Technicians, and Students

## **Marakesh Visa**

This visa is based upon a treaty created by the World Trade Organization signed by numerous countries including Panama. It basically allows a treaty member to receive a visa and work permit for up to 10% of the total employees who are foreigners.

**Hiring Foreigners:** Panamanian laws establish that only 10% of a company's work force can be foreign (non-Panamanian). Therefore, to hire a foreign (non-Panamanian) employee you are required to obtain a work permit issued by the Ministry of Labor. 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. However, there are exceptions to the 10% rule. For example, 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. Also, under certain conditions, the Ministry of Labor can authorize a higher percentage of technical and specialized foreign (non-Panamanian) employees. Panamanian companies with fewer than 10 employees are permitted to have at least 1 foreign (non-Panamanian) employee. Please note that these percentages mentioned herein do not include employees with duties of responsibility in companies whose corporate purpose is solely to handle and manage, from Panama, transactions that will perfect, complete or yield their legal effects abroad (outside of Panama), with the prior authorization of the Ministry of Labor.

## **Specialist Workers Visa**

Article 15 of the Decree Law provides businesses that hire a foreigner as a specialist to obtain this Panama Specialist Workers Visa for a maximum term of (9) nine months which cannot be extended.

The National Service of Immigration will create a registration of businesses dedicated to activities of a foreigner as a specialist inside the Republic of Panama, in order to function as responsible companies before the migratory authority, which will be updated annually.

## **Domestic Workers Visa**

Article 15 of the Decree Law provides that a Panamanian national or a Panama temporary or permanent resident that hires a foreigner to labor as a domestic worker will be able to request this Panama Domestic Workers Visa for a term of a (1) year, with 4 extensions, as long as the applicant continues working for the same employer and both comply with the requirements and responsibilities required by the Panama National Service of Immigration.

The Panama Domestic Workers Visa includes maids, gardeners, cooks, chauffeurs, butlers, and nannies.

This Panama Visa is an excellent opportunity for foreigners relocating to Panama to obtain legal residency in Panama. Any Panamanian national or Panama temporary or permanent resident can sponsor a foreigner as an employee for the Panama Domestic Workers Visa.

The Panamanian national or the Panama temporary or permanent resident applicant is obliged to comply with the dispositions of Article 89 of the Decree Law and those contained in this regulation. Both the foreigner and the employer have the obligation to notify the Panama National Service of Immigration in case of the termination of the employment, which will be grounds for cancellation of the Panama Domestic Workers Visa.

## **Short Stay Visas**

Foreigners entering Panama, without having established their residency here will be able to request a Panama Short Stay Visa as long as they comply with the formalities required in that of Article 28 of the Decree Law (except for numeral 4) and Article 17 of the present regulation. Likewise, the foreigner must justify the

reason for staying which will not be over nine (9) months and will be non-extendable when the term is completed.

**The following 7 Panama Short Stay Visas are available under this program:**

**1. Short Stay for Business Visa**

Foreigners entering Panama having the purpose of establishing business subsidiaries in the Republic of Panama will be able to request the Panama Short Stay for Business Visa. This visa is only available for business people demonstrating proof of solvency of a minimum of five (5) figures. In other words, a minimum of \$10,000 is required.

**2. Short Stay to Visit Relatives Visa**

Foreigners entering Panama with the intention to visit their spouse, blood relative in straight ascending or descending line, collateral kin in line to the second degree of consanguinity verified to be citizen or temporary or permanent resident will be able to request this Panama Short Stay to Visit Relatives Visa.

Note: In the case of a minor, the visa should be applied for by a blood relative to the Panamanian citizen or legal resident.

**3. Short Stay for Investigators and Scientists Visa**

Foreigners entering Panama to carry out as non-profit, the following activities: student exchanges, educational, cultural missions of health, scientific, investigation and studies will be able to request this Panama Short Stay for Investigators and Scientists Visa.

The Panama Short Stay for Investigators and Scientists Visa is offered by virtue of covenants with the State or among embassies or legislatures; foreign legal people and businesses, governmental, educational institutions or non-governmental organizations recognized by Panamanian laws.

**4. Short Stay for Medical Treatment Visa**

Foreigners entering Panama will be able to request the Panama Short Stay for Medical Treatment Visa by verifying that he or she will be under medical treatment in hospitals and public or private clinics that will not exceed nine (9) months.

**5. Short Stay as Merchants and Investors by Special Laws Visa**

Foreigners entering Panama to analyze possibilities of investments or to perform transactions in the Food Processors Zone for Export, Call Center, or special areas appointed for the development of the Audiovisual and Film Industry will be able to request the Panama Short Stay as Merchants and Investors by Special Laws Visa, by the term established and the conditions contemplated in Law No. 25 of 1992.

## **6. Short Stay for International Humanitarian Missions Visa**

Panama supports the principles and rights in the humane international law and the Human Rights for those victims or those affected by natural disasters and other emergency situations that pose a risk to the population in general. That is why we have the Panama Short Stay for International Humanitarian Missions Visa.

Foreigners that come in represented by governmental agencies or properly reputable non-governmental agencies, that enter into the country for aid, achieving an optimum utilization of the resources to reduce through national action, the losses of human lives, damages to properties and solutions to the emergencies that occur will be able to request this Panama Short Stay for International Humanitarian Missions Visa when the Department of Foreign Affairs determines as such.

## **7. Short Stay for the Banking Sector Visa**

Panama banks can hire foreigners for 9 months using this visa.

## **Special Policies Visas**

### **Panama created 4 Special Policies Visas:**

#### **1. Investor in the Panama-Pacifico Economic Special Area Visa**

Foreigners that carry out a minimum Panama investment of Two Hundred Fifty Thousand dollars (\$250,000) in risk capital in a business of the Panama-Pacifico Economic Area will be able to request the Panama Special Policy Visa.

#### **2. Investor in Food Processor for Export Zones Visa**

Foreigners investing a minimum sum of Two Hundred Fifty Thousand dollars (\$250,000) in a properly authorized business, like a property development company or operator of a food processor for the export zone or in businesses established inside these areas, according to Law 25 of 1992 will be able to request the Panama Special Policy Visa.

#### **3. Call Center for Commercial Use Investor Visa**

Foreigners that invest in businesses whose activity offer Panama call centers services for commercial use will be able to request this Panama Special Policies Visa. Just as the Executive Decree 97 of 2002, they will be similar and they should comply with the same requirements of the Permissions of Permanent Residents of the food processors for export zones.

#### **4. Investor of the Film and Audiovisual Industry Visa**

Foreigners that invest in the film industry a minimum of One Hundred Fifty

Thousand dollars (\$150,000) will be able to request this Panama Special Policies Visa.

## **Reforestation Visas**

Panama Reforestation Visa offers two options:

1. **Panama Reforestation Small Investment Visa** \$60,000 (Non Permanent Visa)
2. **Panama Reforestation Large Investment Visa** \$80,000 (Permanent Residency Visa)

### **1. Panama Reforestation Small Investment Visa**

This visa is obtained with a \$60,000 minimum investment to purchase at least (3) hectares in a government certified reforestation project. This will be a six (6) year temporary resident visa (no longer converted into a permanent residency visa leading to Panama citizenship). In addition to the named applicant personally making this investment, a corporation can make the investment. An additional \$2,000 investment must be made for each applicant's dependant applying under the Panama Reforestation Small Investment Visa. Dependants include spouse and children. The applicant can't use this Visa to obtain Panama Permanent Residency or Panama Citizenship. The specific requirements are:

"Foreigners that invest with personal title or through legal entity in activities of reforestation or authorized forest plantation, or any other activity authorized by the National Authority of the Environment (ANAM), of at least three (3) hectares and whose minimum investment be Sixty Thousand dollars (\$60,000) will be able to request this visa."

### **2. Panama Reforestation Large Investment Visa**

This is a permanent Panama Reforestation Residency Visa requiring a minimum \$80,000 investment including a minimum purchase of five (5) hectares in a Panama government certified reforestation project, forest plantation, or other authorized project. This is the only Panama Reforestation Visa leading to Permanent Residency and eventual Panama Citizenship. After a term of two (2) years has elapsed, the applicant will be able to opt for permanent residence. The specific requirements are:

"Foreigners that invest with personal title or through legal entity in activities of reforestation or authorized forest plantation, or any other activity authorized by the National Authority of the Environment (ANAM), of at least five (5) hectares and whose minimum investment be Eighty Thousand dollars (\$80,000) will be able to request this visa."

In case of bringing dependents, the investment should be increased by Two Thousand dollars (\$2,000) for each dependent, which can be justified with a local banking reference.

## **Self Economic Solvency Visa**

Panama Offshore Legal Services offers experienced immigration lawyers who can assist you with obtaining a Panama Self Economic Solvency Visa.

Law N° 16, of June 30, 1960 created this program to offer international investors the opportunity to obtain Panama legal residency, Panama citizenship (and a Panama passport) by making certain Panama investments.

Currently, the Panama Self Economic Solvency Visa offers three (3) different Panama investment options to qualify for Panama residency:

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### **Panama Investment Option #1:**

Panama Investment: Invest a minimum of US\$300,000 (Three Hundred Thousand US Dollars) in a three (3) year time deposit (or "certificate of deposit" or "CD") at any Panama bank. If the applicant has dependents, the applicant needs to invest an additional Two Thousand US Dollars (US\$2,000) for each dependant.

Stipulations: (1) The Panama bank time deposit (CD) account must be in the personal name of the primary applicant (it may not be in the name of a Panama corporation, Panama foundation, or trust). The interest earned from the Panama bank time deposit (CD), will be deposited monthly into any savings account at the Panama bank that you designate (the Panama savings account may be a personal account, or a corporate account). The interest income is NOT taxed by the Panamanian government, nor is it subject to any tax reporting requirements.

Dependents: For each additional dependent that applies for residency under this Panama immigration program, the investment must be increased by US\$2000 (two

thousand US Dollars), plus the primary applicant must prove that he or she has enough income to support the living costs of each dependent.

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Panama Investment Option # 2:

Panama Investment: Invest a minimum of US\$300,000 (Three Hundred Thousand US Dollars) in titled Panama real property. This must be equity, as mortgages do not count. If the applicant has dependents, the applicant needs to invest an additional Two Thousand US Dollars (US\$2,000) for each dependant.

Stipulations: (1) The titled Panama real property can either be in the personal name of the primary applicant or in the name of a Panama Private Interest Foundation; as long as the primary applicant is either the Founder or a Beneficiary (it may not be in the name of a Panama corporation or trust). (2) The primary applicant must also prove that he or she has sufficient income to support him or herself.

Dependents: For each additional dependent that applies for residency under this Panama immigration program, the investment must be increased by US\$2000 (two thousand US Dollars), plus the primary applicant must prove that he or she has enough income to support the living costs of each dependent.

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Panama Investment Option # 3:

The third option is a combination of a 3-year Panama bank CD with Panama real estate purchases equity (excluding mortgages) with both totaling a minimum of US\$300,000. If the applicant has dependents, the applicant needs to invest an additional Two Thousand US Dollars (US\$2,000) for each dependant.

**Requirements to Qualify for a Self Economic Solvency Visa**

Foreigners that invest the minimum sum of Three Hundred Thousand US dollars (US\$300,000) in Panama real estate or a Panama bank time deposit or a

combination of both will be able to qualify for this visa. If the foreigner has dependents, the applicant needs to invest an additional Two Thousand US Dollars (US\$2,000) for each dependant.

#### Qualifying for a Panama Self Economic Solvency Visa with a Fixed Panama Bank Time Deposit

In addition to the basic requirements established in Article 28 of the Decree Law, the applicant must submit the following documents:

1. Panama bank certification that the foreigner opened a Panama bank time deposit account in the applicant's name for a minimum of three (3) years in any Panama bank for a minimum value of Three Hundred Thousand dollars (US\$300,000), or its equivalent in foreign currency;
2. Copies of the Panama bank time deposit certificate authenticated by the bank.

#### **Panama Self Economic Solvency Visa by Investing in Panama Real Estate**

In addition to the requirements established in Article 28 of the Decree Law, the following documents must be submitted:

1. Certificate from Panama's Public Registry verifying personal title of the applicant with a minimum value of Three Hundred Thousand dollars (US\$300,000), free of debt or liens.

**Note 1:** In the case that the title of the Panama real estate is under the name of a Panama Private Interest Foundation, the applicant will qualify if he or she is the Founder and/or one of the beneficiaries. The certificate of the Public Registry must designate the applicant as either the Founder or Beneficiary.

**Note 2:** In the case when the applicant has paid the minimum required cash sum of Three Hundred Thousand dollars (US\$300,000) towards the total price of the Panama real estate, he or she will be able to finance the remainder through mortgage loans.

## **Panama Self Economic Solvency by Combination of Panama Investments (Fixed Panama Bank Time Deposit and Panama Real Estate Purchase)**

**Stipulations:** (1) The Panama bank time deposit (CD) account must be in the personal name of the primary applicant (it may not be in the name of a Panama corporation, Panama foundation, or trust). The interest earned from the Panama bank time deposit (CD), will be deposited monthly into any Panama bank savings account that you designate (the savings account may be a personal account, or a corporate account). The interest income is NOT taxed by the Panamanian government, nor is it subject to any tax reporting requirements. (2) The titled property must be in the personal name of the primary applicant or in the name of a Panama Private Interest Foundation where the applicant is the Founder and/or beneficiary. (3) The primary applicant must also prove that he or she has sufficient income to support his or her general costs of living.

**Dependents:** For each additional dependent that applies for Panama residency under this Panama immigration program, the primary applicant must prove that he or she has enough income to support the general costs of living of each dependent.

## **Retiree Visas**

The Panama Retired or Pensioned Program allows foreigners to obtain legal residency in Panama under the condition that they are retired or pensioned. According to the Panama Immigration Department, there is no minimum or maximum age required to qualify.

The applicants' retirement income (or pension income) must be at least a LIFE TIME US\$1,000 per month. Another option is to purchase at least \$100,000 in Panama real estate, which reduces the lifetime monthly income to \$750.

The applicants' income must be proven by providing documentation such as a letter from the institution or company that pays the retirement or pension income. This certification must be notarized and authenticated by the Panamanian Consulate nearest you (or by apostile).

## **Here are the Basic Requirements to qualify for a Panama Pensioned Visa:**

Article 201.4.a states the following:

"Article 201.(4): If the pension or retirement fund is from a private company, the following is required:

- a. Letter from a foreign company that administrates pensions, a trust company, a mutual fund company, an insurance company or a bank, that certifies that the funds exist to guarantee a lifetime pension for the applicant.
- b. Certification of the existence and validity of the private company that issued the pension and administrates the funds.
- c. Copy of the proof of payment or statement of account from the bank."

**This is important because applicants can use an Annuity issued by a bank, an insurance company, or even a private company to meet the Panama Pension Visa requirement.**

Also, in the same article 201(4) it states in the final Paragraph:

"In the case of spouses they may opt for proving the sum established (\$1,000) in the numeral 1 with the pension of both, in that case they should comply with the requirements previously established for both pensions."

What this means is that **if a married couple both receive a pension, and their combined pensions equal at least \$1,000 they can apply for the Panama Pension Visa.**

Also, the law states the following regarding **dependents**:

"Article 202. In the case of dependent children, their permit (resident visa) shall be temporary until 25 years of age, as long as they prove that they are full time students, however, they shall not have the right to permanent residency nor the condition of "Pensioned". The exception is for dependent children that suffer from a proven profound disability (such as a physical or mental disability)."

This means that **if a dependent child does not attend college full time after the age of 18, then their Panama Pensionado Visa will be cancelled. It also means that dependent children can't use the parents Panama Pensionado Visa to obtain Panama permanent residency. They will have to find another Visa to apply for Panama permanent residency.**

The law requires an **additional \$250 per month for each dependant** who can be accomplished by either receiving that amount in the monthly pension or by

providing a licensed local Panama bank reference letter indicating that amount is in deposit.

Also, it's important to note that **the law does not discriminate based on age**, so anyone, regardless of age, that has the pension mentioned above, can apply for this Panama visa.

### **PANAMA BANK CD PENSION VISA (Rentista Retirado Visa)**

Panama Offshore Legal Services helps foreigners with qualifying for a Panama Bank CD Pension Visa. This is also called the "**Immediate Passport**" program.

Panama Bank CD Visa allows residency and a special Panama passport as long as you maintain a 5-year certificate of deposit in one of the two national banks of Panama with a minimum monthly interest of \$850. The minimum monthly interest used to be \$2,000.

This "special" Panamanian passport looks like any other passport but will include the actual country of nationality. That means if a Filipino (for instance) obtains the "Immediate Passport" under this visa the Panama passport will still declare the holder as a citizen of the Philippines.

The two national banks are the National Bank of Panama and the Caja de Ahorros Bank (both Panama government banks).

Said funds must continue to be held in the Panama bank CD until permanent resident status is obtained. Early withdrawal will result in the cancellation of the provisional visa.

These funds must remain free and clear of any obligations or guarantees. Violation of this requirement will result in loss of all rights and incentives.

The foreigner will be granted a five year residency which can be renewed under the same conditions set forth here.

## **CONCLUSION**

This brief guide summarizes the major laws and procedures for starting a business in Panama along with conducting business and moving to Panama. It is strongly advised that you should hire a competent law firm which speaks your native language and can provide all of the legal services mentioned in this guide.