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**HSBC**   
Commercial Banking

# Doing business in Panama





# Contents

Executive summary	4
Foreword	6
Introduction – Doing business in Panama	8
Conducting business in Panama	12
Taxation in Panama	16
Audit and accountancy	24
Human Resources and Employment Law	27
Trade	30
Banking in Panama	34
HSBC in Panama	35
Country overview	36
Contacts	38

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The materials contained in this publication were assembled in May 2012 and were based on the law enforceable and information available at that time.

# Executive summary

Panama's unique geographical position and its opportunities to participate in a number of significant projects aimed to further improve its infrastructure continue to attract new investors and visitors to the country each year.

Furthermore, there are plentiful opportunities and advantages stemming from the Panama Canal expansion, the construction of a metro system, the expansion of various ports and airports, and the enactment of laws establishing special regimes for certain types of businesses and industries. These make Panama an attractive location for companies to establish their headquarters or subsidiaries.

Panama's economy is relatively stable and is based on the use of the US dollar as its legal tender. Based on the World Bank 'Doing Business' survey, Panama's ranking increased from 77th to 72nd in 2011. Its 2010 GDP increased by 7.5%<sup>1</sup> compared to the previous year, which is remarkable in the context of the global economic crisis.

Panama offers a number of competitive advantages for investors to locate their headquarters, business operations or simply offices. These can be summarised as follows:

- Panama is located in the centre of the American Continent, with easy access through land, sea and air.
- It has a modern infrastructure and is deemed to be the largest, well established banking centre in Latin America.
- The headline tax rate for most companies is 25%, but there are a number of special tax incentives and fiscal regimes in Panama for certain types of companies, allowing them to operate with minimum tax exposure.
- A company can be incorporated in Panama within one day.
- For international businesses, Panama offers a developed telecommunication platform to conduct their affairs efficiently.
- Because of the domestic use of the United States dollar, Panama has no foreign exchange constraints. It is politically and socially stable.

- In addition, the government in Panama is actively addressing opportunities to attract further Foreign Direct Investment (FDI). The Government has designed a strategic plan to develop Panama through four key areas: logistics services, banking services, tourism, and agriculture.

Complementing the territorial taxing regime, Panama is currently in the process of signing treaties to avoid double taxation with several countries around the world, using the widely accepted OECD Model.

This document contains references to some common issues that investors should be aware of when operating in Panama, although specific advice on their particular circumstances should be sought.



<sup>1</sup> Source: 2010 General Comptrollership of the Republic Annual Report

# Foreword

Panama has a long history as a business crossroad and a financial sector (with 93 banks). Panama's geographical position has a number of advantages; such as the Panama Canal, which is instrumental for international trade, Panama being the largest free zone in the Americas, with a modern infrastructure, and the US dollar as its currency. It is without a doubt that Panama is becoming a world-class destination for business.

Important multinationals and cooperation agencies from all over the hemisphere have decided to move their Latin American regional headquarters to Panama. Furthermore, contrary to other countries in the region that experienced credit rating downgrades during the economic crisis, rating agencies (such as Fitch and Moody's) have upgraded Panama to the investment grade reflecting the sustained

improvement in public finances and the economy's resilience during difficult economic times affecting the world.

HSBC has been a key player in Panama since 1972 and is the largest bank by assets in the country and in Central America today.

It is a privilege to sponsor this document, which aims to contribute to a better understanding of the many business advantages and possibilities that Panama has to offer.



**Aimee Sentmat**  
Head of CMB



# Introduction

## Doing business in Panama

Welcome to our guide to doing business in Panama. In this publication we hope to provide you with an insight into the key aspects of undertaking business and investing in Panama and answer many of the questions overseas businesses and entrepreneurs have when making their first venture into the Panamanian market.

### Economic History

Panama's economy basically relies on the provision of services and is primarily based on the Panama Canal operations, tourism, banking, the Colon Free Zone (which is the world's second largest Free Zone behind Hong Kong), insurance, and flagship registry, medical and health among other businesses. Another important, but shrinking economic sector is agriculture with its main products being bananas, rice, corn, coffee, sugar, vegetables, meat, and shrimp.

### Current advantages for new businesses

The Panama Canal Expansion project has helped Panama to keep its steady economic growth. Beside this major project, the Government has announced other ventures such as the construction of a Metro for Panama City,

the construction of a housing complex for Curundu (an undeveloped neighbourhood in the centre of the city) among others.

For foreign investors coming to Panama, it offers the following benefits:

- Developed railway infrastructure, including express highways, such as the Cinta Costera, Corredor Norte and Corredor Sur (which can take you from the International Airport to the centre of the City in less than 15 minutes).
- Links to more than 50 destinations in 27 countries through direct flights from Panama.
- Excellent port and harbour facilities on both the Atlantic and the Pacific Oceans.
- International submarine cable lines linking Panama with the worldwide frame of submarine lines guaranteeing high quality telecommunications facilities.
- All kinds of processing and manufacturing are permitted within the Free Zones, while administration can be performed from inside or outside the zone.
- Focus on attracting further foreign investments into areas such as logistics,

hotel development and fruit exportation as set out in the 2009-2014 strategic plans.

- Highly skilled workforce and abundance of bilingual professionals speaking Spanish and English.
- Reputation of Panama as one of the most developed financial centres in the region.
- Several free trade agreements which have been enacted and which are currently in the process of being negotiated.

Panama does have a suite of regulatory practices that need to be considered when you arrive in the country. For this reason it is important to seek the advice on specific rules which would be applicable to certain types of businesses and industries in order to comply with current legislations.

### The economic environment

Panama has bravely overcome the impact of the recent worldwide recession and reported a GDP growth in 2009 of 2.4% and 7.5% in 2010<sup>2</sup>. This was during the time when many countries in the region were affected by the global economic crisis and had reported negative GDP growth.

<sup>2</sup> Source: 2010 General Comptrollership of the Republic Annual Report



## Key Sectors and Trading Partners

Panama has a services-based economy. The 2010 Annual Report issued by the General Comptrollership of Panama identified the main economic activities with foreign investment in 2010 as the following:

- ports and harbours (26.5%);
- aerial transportation (15.6%);
- tourism (based on the hotel activity – 9.7%);
- trade at the Colon Free Zone (7.5%); and
- banana (6.0%) and pineapple production (11.5%).

For the internal sector, key areas of growth can be summarised as follows:

- livestock farming industry (9.5%);
- farm birds (8.7%);
- mining (6.1%);
- construction (6.7%);
- water, gas and energy supplies (6.5%);
- wholesale trade (16.3%);
- hotels and restaurants (11.0%);
- shipping transportation (5.3%);
- telecommunications (17.7%);
- private schooling (6.5%);
- private healthcare (4.5%); and
- other services (7.0%).

According to the report issued by the Office for National Statistics and Census, the largest import areas in 2009 were vehicles and automobiles, iron, fuel and prepared food for animals.

The largest export areas in 2009 were seafood, fruits and cultivated pearls.

The largest markets for Panamanian exports were United States, Costa Rica, Taiwan and Spain, while most importations came from The United States, China, Costa Rica, South Korea and Brazil<sup>3</sup>.

## Tax and grant incentives

There are a number of tax incentives and special fiscal regimes currently in force in Panama. These typically apply to certain types of activities, mostly relating to the export of goods and services. Special fiscal regimes include:

- Multiregional Headquarters Regime (Law 41 of 2007);
- Panama Pacific Special Economic Area Regime (Law 41 of 2004);
- Film Industry (Law 36 of 2007);
- Call Centres & Free Trade Zones (Law 32 of 2011); and
- Fuels Free Zones (Law 8 of 1987).

Depending on the type of activities, tax incentives could cover exemptions from tax on income, exemption from Value Added Taxes and Operations Notice Taxes, exemption from the withholding tax on remittances from abroad as well as a reduced rate of tax on dividends.

Set out below are just some of the examples of the existing special regimes:

- Multiregional Headquarters Regime (for 'SEM' entities): The Law 41 of 2007 encourages multinational companies to establish back offices or regional headquarters in Panama providing them with several migration, labour and tax benefits, including exemption on payments of any taxes in Panama for both the company and the foreign employees working exclusively for the SEM entity. It also establishes no limits for the hiring of foreign personnel regardless of the total amount of employees or total

compensation they will receive. The SEM entities are reserved for the development of certain types of activities in Panama specifically described in the law.

- Free Zones: Entities established in free zones may enjoy the suspension of import duties on goods, as well as exemption from income tax, VAT, stamp tax, export tax and excise tax derived from royalties on exportation and re-exportation activities.

## The regulatory environment

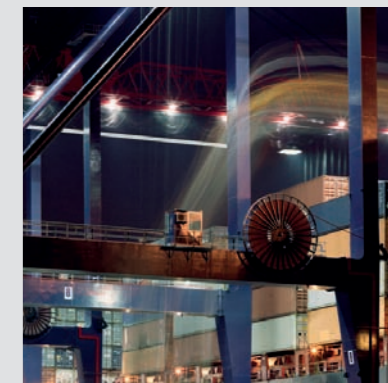
Panama is an open market. There are no currency or exchange controls or restrictions on foreign investment.

Certain industries however, are subject to regulations, such as financial services. Consequently we highly recommend that you seek professional advice before starting a business in Panama to confirm whether your type of business is included among those with special requirements and to ensure compliance with these requirements.

## Current developments

The government is currently in the process of negotiating and ratifying the terms of double taxation treaties with various countries around the world. Currently, 14 treaties have been negotiated with the following countries: Mexico, Italy, Belgium, Barbados, Netherlands, Qatar, Spain, France, Luxembourg, Portugal, South Korea, Singapore, Ireland and Czech Republic. Out of these 14 treaties, 10 have been signed and the treaty with Mexico is now enforceable.

Panama also recently announced the negotiation and signature of the Agreement for Information Exchange with the United States of America, which had been ratified by the National Assembly<sup>5</sup>.



<sup>3</sup> Source: Foreign Trade Statistics System, 2009, Office for National Statistics, General Comptrollership of Panama

<sup>4</sup> Source: Sedes de Empresas Multinacionales(SEM) or Multinational Companies Headquarters (MHQ)

<sup>5</sup> Source: [https://www.dgi.gob.pa/documentos/doble\\_tributacion/listado\\_convenios.pdf](https://www.dgi.gob.pa/documentos/doble_tributacion/listado_convenios.pdf)

# Conducting business in Panama

## Forms of business

The main ways for a foreign investor or company to carry out business in Panama are through the following (categorised based on the relationship between the entity in Panama and the investor):

### 1. Branch of the foreign company

From the legal point of view, the foreign company is not considered as a separate legal entity and is totally dependent on changes occurring to the foreign company. Nevertheless, for tax purposes the branch conducting business in Panama will be considered as a separate taxpayer from the main foreign entity. Its presence and any future changes to the foreign company should be registered in accordance with the Corporate By-Laws.

### 2. Subsidiary

The subsidiary is represented by a separate legal entity, and is consequently not affected by any changes to its foreign parent company. It must be registered in accordance with the Company's By-Laws.

A subsidiary can be in the form of the following entities:

#### a. Limited Liability Partnership ('LLP')

This type of entity is regulated in Panama by Law No. 4 of 2009 and the Commercial Code on non-regulated matters. All Limited Liability Companies must add to their names the acronym S de R. L. or SRL.

The new legislation on LLCs makes it very similar to the Panamanian Corporation as described below. The main difference is that details of the LLC ownership should be publicly disclosed and must be included in the social by-laws. Details of the ownership in the Corporation do not appear in public records.

#### b. Limited Partnership

It must be incorporated through the public deed and registered at the Public Registry. There must be two types of partners – ones that are jointly and fully liable for the entity's obligations (comanditados) and others which liabilities are limited to their contribution to the entity (comanditarios).



#### c. Corporation

This entity is regulated in Panama by Law No. 32 of 1920 and the Commercial Code for non-regulated matters. All corporations must add to their names the acronym S.A, Corp, or Inc. A board of directors comprising a minimum of three directors must be appointed. There are no restrictions regarding the minimum or maximum capital required. This is the most common type of entity.

#### d. General Partnership

As other types of entities, these should also be incorporated through the public deed and registered at the Public Registry. General partnerships can execute all commercial activities included in their social by-laws. The partners have unlimited liability.

## Setting up business entities

### 1. Establishment of a Branch in Panama

Foreign entities can establish branches or agencies in Panama whose main purpose is to initiate operations in the country by providing the following details to the Registrar of Companies in Panama:

- A public deed legalised by Notary including the following information:
  - The name of the company;
  - The country of incorporation;
  - The address of the branch in Panama;
  - Details of the officers and directors;
  - Legal Representative; and
  - Capital;
- A certified copy and translation of the company's constitutional documents and any amendments to the initial corporate by-laws;
- A translated copy of the company's latest balance or financial statement together with an affidavit on the portion of the capital that will be used in the Republic of Panama; and
- Good Standing Certificate from the country of origin.

### 2. Corporation (Subsidiary)

A subsidiary is incorporated by filing the following documents with the Panamanian Registrar of Companies:

- Articles of Association by means of a public deed duly legalised by Public Notary in Panama including the following information:
  - The name of the company;
  - The local register agent in Panama (must be an attorney or law firm duly authorised to practice law in the Republic of Panama);
  - The address of the corporation in Panama;
  - Details of the officers and directors including name and position (there is a minimum limit of three directors);
  - Legal Representative; and
  - Capital;
- Annual Franchise Tax of US\$250.00 (US\$300.00 for subsequent years).

When all the administrative requirements have been followed, the Registrar of Companies will issue a certificate of incorporation which demonstrates that the company is duly established and can start operating. The registration procedures should not exceed two days in total.

### 3. LLC

An LLC is incorporated by filing the following documents with the Panamanian Registrar of Companies:

- Public deed including details of the LLC's name, details of partners and contribution to the capital, local registered agent, address of the LLC in Panama, officers and directors, legal representative; and
- Annual Franchise Tax of US\$250.00 (US\$300.00 for subsequent years).





# Taxation in Panama

## Corporation Income Tax

### Scope

Panama follows the territoriality principle. This means that a company that is resident in Panama for tax purposes is liable to corporation tax on revenues considered to be Panamanian source income.

Panamanian source income is generally defined as income arising from capital, assets or rights located, placed or economically used within the country. It also includes income obtained from commercial, industrial, mining, and similar activities in Panama, as well as income from personal services, professional or trading activities in Panama. Additionally, it includes income from loans, leases and rentals, regardless of the nationality, domicile or residence of the parties who develop the activities or the place where these are contracted or paid.

A company is a Panamanian resident if it is incorporated in Panama and is duly registered in the Panamanian Companies Registrar.

From 1 January 2010 companies are subject to pay income tax at a fixed rate of 27.5%. From 2011, the tax rate will be 25%. Some businesses<sup>6</sup> and their related parties will be

subject to a 30% tax rate until 31 December 2011, then 27.5% from 1 January 2012 and then 25% from 1 January 2014.

From 2011, entities with gross taxable income in excess of US\$36,000.00 are liable to pay income tax in advance in

Tax rates (Progressive Deduction Rate)	
Year	%
1 January 2010	27.5
1 January 2011	25
*Special rates	

The tax base (amount to which the tax rate will apply) for Juridical entities whose taxable income in excess of US\$1,500,000.00 is the greater of:

1. Net taxable income calculated on the normal basis.
2. The 4.67% of the gross taxable income (excludes exempted and non-taxable income and foreign source income).

### Administration

Companies are required to submit an annual 'self-assessment' return within three months of the year end for the accounting period not exceeding 12 months. Income tax and operations notice tax is payable at the same time in order to avoid interest charges for the late payment and withholding tax surcharges at 10%.

monthly instalments at a rate of 1% of the tax calculated on monthly invoicing or gross taxable revenues less the corresponding devolutions and discounts. These advance payments will be credited against the income tax assessed at the end of the fiscal year.

### Taxable profits

Except for remittances from abroad, businesses are basically taxed on income arising from Panamanian sources.

Taxable income is defined as the gross assessable income less foreign source income and exempted income. Gross assessable income normally includes business income, rent, interests, royalties, salaries, pensions, and all other similar income.

Generally, expenditure and losses are deductible, providing they are incurred in gaining or producing taxable income or preserving taxable income, subject to certain limitations.

Common allowable deductions include the following:

- intercompany charges and fees such as royalties, technical and management service fees, interest charges paid to foreign affiliates for royalties, franchising and other services (there are no comprehensive transfer pricing rules in effect in Panama, however there is a limitation of charges deductible, depending on remittances made from abroad);
- exchange gains or losses;
- expenses incurred for ordinary repairs and improvements to the company assets as long as they do not increase the useful life of the assets;
- depletion and depreciation of assets;
- investment credits or allowances;
- organisation expenses can be amortized over five years or charged against the profits and losses from the first year;
- insurance premiums, as long as they are related to risks associated with the taxable activity;

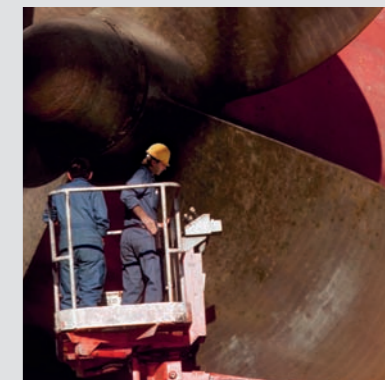
- provisions for bad debts, limited to the lower of 1% of credits sales or 10% of the receivables at the end of tax year;
- bad debts written off, providing there is a direct charge against the profit and loss account; and
- donations, limited to 1% of the total taxable income.

Non-deductible items include those expenses not required to produce or keep taxable income or incurred to increase the useful life of asset. Specifically, these would include entertainment expenses, surcharges and interest related to unpaid governmental obligations.

In addition, when the taxpayer has both the taxable income and the exempt or foreign income, the percentage of the deductible costs and expenses can't exceed the percentage that the taxable income represents to the total income.

### Operating Permit tax

2% tax is payable on the difference between the market value of the total assets at the end of the fiscal year and the total liabilities, excluding liabilities between related parties. The operating permit tax is capped at US\$60,000.00 per year. Free Zone User's tax rate is 1% with a cap of US\$50,000.00.



<sup>6</sup> Source: Applies to the energy distribution and generation; telecommunication services; insurances; re-insurances; financial institutions regulated by the Law 42 of 2001; cement manufacture; operation and management of gambling businesses; mining industry; and entities that develop banking activities in Panama.



#### **Dividends tax**

The corporation must withhold 10% on all dividends declared from the Panamanian income. Dividend from foreign source income or non-taxable income is subject to a 5% withholding tax. 5% rate also applies for entities established in Free Zones or Economic Areas with special tax exemption regimes, regardless of the source of income. Dividends from bearer shares are subject to a 20% withholding tax.

Dividend tax is not payable if the entity:

- a. does not require an Operating Permit to develop activities in Panama;
- b. does not require an operating permit to start operations in the Colon Free Zone;
- c. is not established in a Fuel Free Zone;
- d. is not established in a free zone or special zone; or
- e. does not produce Panamanian source income.

If no dividend distribution is made, the company must pay a 4% Prepaid Dividend Tax in advance. Once the dividend is distributed, the additional 6% would be payable.

Company branches are not subject to tax on dividends. Instead, branches must pay tax on profits at a 10% rate after income tax.

Loans to shareholders are treated as dividend distributions and are subject to either a 10% or 20% dividend tax.

#### **Withholding tax**

Royalties and interest payments made to foreign entities are subject to withholding tax at the effective rate of 12.5%. The same rate will apply for interest payments. Dividends, as indicated in the previous section, are subject to withholding tax of 5%, 10% or 20%.

The commissions and the professional services in general are subject to withholding tax at 25% over 50% of remittance.

#### **Losses**

Losses incurred by common taxpayers may be deducted from the taxable profits within the following five fiscal periods, on a maximum of 20% per year but limited to 50% of taxable income each year. It is not possible to carry back the losses.

#### **Transfer pricing**

Transfer pricing rules in Panama were introduced in 2010 (Law 33 of 2010) and follow the OECD guides. Transfer pricing rules apply only to transactions with the related parties in countries with which Panama has a Double Taxation Treaty in force.

Where transfer pricing rules apply, the taxpayer must conduct transfer pricing studies to reference their transfer pricing rules. The Tax Administration can request these documents to verify the transfer pricing arrangements.

## Personal Income Tax

### Rates:

Individuals are assessed to income tax on a calendar year basis.

The following progressive tax rates apply for 2011:

Taxable Income (USD)	Payable taxes	% on excess
11,000		0
11,000 – 50,000	Rate up to 50,000	15
50,000 or more	5,850 (first 50,000)	25

Educational insurance tax and social security contribution apply to the same income.

### Scope:

Income tax is levied on the individual's net income derived from operations within Panama.

Tax rates depend on the individual's tax residency. An individual will be a tax-resident of Panama if he or she is physically present in Panama for over 183 days in a tax year.

Residents are taxed on their net taxable income (gross income – deductible allowances) earned from Panamanian sources at the progressive rates of up to 25% as specified above.

In addition, 1.25% Educational Insurance Tax is payable on salaries and wages received by residents in Panama. This tax is payable by their employer.

Non-residents are taxed on gross income produced from Panamanian sources at a rate of 15%. 2.75% Educational Insurance Tax is payable on salaries and wages receivable by non-residents.

Taxes arising from Panamanian salaries must be withheld by the employer. Providing the correct tax withholding is operated by the employer, the individual is not required to file an annual income tax return.

Both non-residents as well as tax-residents are subject to Social Security Contributions on their earnings from employment at a rate of 9.0%. Social Security contributions will increase to 9.75% from 2013.

### Capital gains tax (CGT):

Depending on the nature of seller's activities, there are two types of taxes that can apply to real estate transactions:

- A 10% charge on capital gains for sellers with occasional transactions. A 3% advance payment must be made on the greater of the gross proceeds and the registered value of the property in the Public Registry. The taxpayer may deem

this 3% advance payment as definitive or file for an assessment to tax the net capital gain at 10% to obtain the rebate.

The rate for ordinary transactions will be as follows:

- If at least 51% of the total income of a company involves dealing in real estate or investment in a newly constructed building, special progressive tax rate will apply on sale of each such property. The rate depends on the total value of the property sold, and it will be calculated by reference to the sale proceeds and the registered value, whichever is greater.

The following rates apply to the sale of securities:

- 5% withholding tax on the total consideration from the sale is payable by the buyer to the National Treasury on the seller's behalf.
- The seller can consider the 5% withholding as the definitive income tax applicable to capital gains or to file an income tax return, calculating the tax payable on the net gain at the 10% rate, deducting tax withheld already. The seller can then reclaim the difference, although details of the procedure required to obtain the refund is in the process of being finalised.

A percentage rate applies to net gains on the sale of movable goods or fixed assets. In addition, VAT might apply.

### Payroll taxes and Social Security:

All Panamanian employers must be properly registered at the Social Security Office.

Once registered, each month the employer is required to report the amount of income tax, social security contribution and education tax withheld for each current employee.

Employers are required to keep the appropriate records and complete the necessary filing for the monthly affiliation of new employees.

12% employers' social security contributions are on the total remuneration and are borne by the employer. In addition, the employer is required to withhold 9% employee contributions on behalf of each employee and remit these to the tax authorities.

A public mandatory occupational insurance borne by the employer is levied at the rate of 0.98 - 5.67%, depending on the risk associated with a particular occupation.

Employers must also pay a 1.5% educational insurance tax on the remuneration.



## Value Added Tax (VAT)

VAT is levied on expenditure and is applied at all stages in the sale of goods or the provision of services within Panama. Consequently, the final burden for paying VAT rests with the consumer, although businesses are responsible for collecting the VAT due and complying with the appropriate regulations.

From 1 July 2010, the standard rate of VAT has increased from the historic rate of 5% to 7%, except for specific products with higher rates, such as 10% for alcoholic beverages and hotel services and 15% for cigarettes.

Sales of land and buildings, as well as provision of services by employees are not subject to VAT.

Exportations are not taxed and might produce refunds for the supplier. The sale of goods such as medicines, foods, and certain products for babies are tax exempt, and may allow the supplier to recover the VAT as an exporter if certain criteria are met.

Medical services and land transportation among other services others are tax exempt, but do not produce VAT credit for the supplier.

The standard VAT reporting requirement for a company in Panama is to submit returns to the IRS Office on a monthly basis. Panamanian tax law establishes penalties and fines on non-compliance with monthly filing.

### Other taxes and incentives

#### Stamp Duty

All companies or individuals conducting VAT exempt activities will be liable to pay the stamp duty for invoices issued. The stamp duty is calculated at a rate of ten cents of a dollar (US\$0.10) per each one hundred dollars (US\$100.00) of the value of each invoice issued.

#### Franchise Tax

Companies duly registered at the Panamanian Companies Registrar must pay US\$250.00 at the moment of the registration and annual amount of US\$300.00 for subsequent years. Franchise tax is not applicable to non-profit organisations, civil partnerships and cooperatives.

#### Municipal Tax

All industrial, commercial or profitable activities in Panama are subject to municipal tax at the municipality where the business operates. Each company conducting such activities registers its business at the corresponding municipality once it starts operating there.

The tax rate will be determined by each municipality at its sole discretion, depending on the economic activity of the company and its annual gross income in accordance with on a table of rates established by each municipality.

Municipal tax rates increase by means of a new ruling, consequently, new higher tax rates will apply for some activities from June 2010.

#### Tax Incentives

Panamanian tax law provides certain tax incentives for some industries and activities to be performed in Panama, including, but not limited to, the following:

- Investments in the agricultural industry, manufacture, marine resource transformation, industries dedicated to the extraction and processing of raw agricultural and forestry materials may get industrial promotion certificates. These will allow crediting of the investment against taxes such as income tax.

- The taxpayer can choose to apply accelerated depreciation depending on the use of assets without any authorisation from the Tax Authorities, however this will be limited to the minimum useful life period of the assets described by Law.

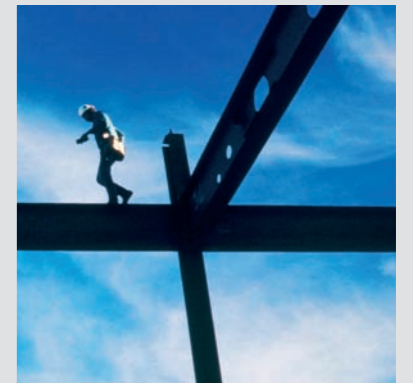
- The Incentive Law for Tourism Development grants several tax benefits, such as exemption from import duties on certain goods relating to tourism services and from property tax for companies involved in the tourism industry, although this will only apply for those corporations with a special signed tourism agreement with the Government given upon request. In special circumstances income tax exemptions can be available.

- Forestry proceeds are totally exempted from income tax provided a special certification is requested and granted by the Tax Administration. The certification should confirm the registration of the property at the Forestry Registry of the Environmental National Authority. This exemption is available until 2018.

- Entities established in the Panama free zones may enjoy exemption from import duties on goods, income tax, sales tax, exportation tax and excise tax derived from royalties on exportation and re-exportation activities. However, these entities will be subject to the dividend tax at 5% and the Operations Notice Tax at 1% of their equity (considered as total assets, minus liabilities, plus related parties liabilities), capped at US\$50,000.00 per annum.

Another incentive will be the establishment of the company under the Multinational Headquarter Law (MHQ, in Spanish known as SEM) which is a special regime created under Law 41 of 2007. This type of incentive is directed specifically for entities who offer services to companies within the same corporate group; i.e. logistics, planning and technological support.

This type of regime is exempted from VAT tax obligations.



# Audit and accountancy

## Books and records

The minimum corporate and accounting books required for a Panamanian company are as follows:

- Stock certificate book.
- Stock register.
- Minute book.
- General journal.
- General ledger.

With the exception of the stock certificate book, all books must be bound and duly registered by an Authorised Public Accountant. It is advisable in accordance with the local practice to maintain all books and records in Spanish.

The minimum accountings books required for a foreign company are a general journal, and a general ledger (which must also be bound and registered). Other records, such as sales and purchase journals and subsidiary ledgers, are not mandatory.

It is possible to operate a completely separate set of books designed in accordance with a company's needs and, in addition, keep the legally required books as a formality as summarised above, or combine the legally required records with those that might be required for accounting purposes.

A company doing business in Panama must keep its legal accounting books, correspondence, and all other supporting data in the country. It is possible to request to waive the requirement to use the accounting books and instead request the authorities to allow the use of magnetic systems. This permission and the appropriate certificate confirming the arrangements must be issued by a Panamanian Authorised Public Accountant.

## Filing requirements – reports and accounts

A Panamanian company that does not operate in Panama is not required to file any financial reports or tax returns. It may maintain its books of accounts in any manner it desires in any part of the world.

Panamanian companies operating in Panama and foreign companies qualified and operating in the country are required to file Panamanian income tax returns. No other financial reports, with the exception of certain statistical reports which may be requested by the Statistical Department of the Comptrollers' Office and municipal tax declarations, are required.

The accounting reference period determines a company's 'financial year', in respect of which the accounts must be prepared. The accounting reference period generally can't exceed 12 months, starting from January until December. However, special accounting periods can be requested in case of multinational companies based on the fiscal year of their headquarters. Any request for a special fiscal period requires approval from the local IRS office.

## Audit requirements

Panama historically used accounting principles that complied with the International Account Standard Committee and from 2009 it adopted International Financial Reporting Standards (IFRS).

Generally, only the following types of companies are required to file their audited statements annually:

- Companies listed with the National Securities Commission;
- Commercial banks and savings institutions operating in Panama; and
- Insurance and reinsurance companies.

The statements have to be examined by independent public accountants and duly filed with the relevant authorities.





# Human Resources and Employment Law

If a taxpayer's capital exceeds US\$100,000.00 or his annual sales volume or gross income exceeds \$50,000.00, his income tax return must be prepared and countersigned by a Panamanian certified public accountant. Financial statements must be duly audited by Authorised Public Accountants.

The basic financial statements include a balance sheet, the related statements of income and retained earnings and changes in financial position, together with the notes to the financial statements.

The income statement normally shows the following information, although not necessarily in this order:

- net sales;
- cost of goods sold;
- gross profit;
- sales, general and administrative expenses;
- other income and expenses;
- income tax;
- net income; and
- capital.

Amounts in excess of the item's par or balance sheet value are shown immediately after capital stock on the balance sheet. Stock dividends are accounted for by a charge to retained earnings.

Stock spot lists are not common and are only disclosed in notes to the financial statements. Treasury stock is carried at cost and is normally shown as a reduction from stockholder's equity.

Companies operating in the Colon Free Trade Zone and other free trade zones located in Panama are required to maintain (but not file) audited financial statements at their premises.

## Auditors and their duties

Where a company is required to have its accounts audited it must appoint an auditor. Generally, accounting practices follow those of the United States. Virtually all the major international accounting firms either have offices in Panama or are represented in Panama in association with local firms.

There are three active professional organisations:

- The Authorised Public Accountants Association;
- The Woman Accountants Association of Panama; and
- The Panamanian Authorised Public Accountant College.

These three professional associations appointed a

Financial Accounting Standard Committee in 1978 to define generally accepted accounting principles in Panama.

The International Financial Rule Standards (IFRS) represent the group of rules most frequently used.

However, currently the use of IFRS is not mandatory. For the banking activities and for those entities reviewed by the National Securities Commission, IFRS or US GAAPs can be used, providing a notice is given to the appropriate regulatory body.

All labour relationships in Panama are governed by the Labour Code. It regulates the relationship between the employer and establishes several rules that must be accomplished when hiring personnel.

According to the Panamanian labour law, there are three different types of labour contracts, such as:

- the indefinite contract;
- the definite term labour contract; and
- the contract for specific services.

Companies that need to employ foreign workers must obtain an authorisation from the Ministry of Labour and Social Welfare. Work permits issued to foreigners are valid for one year and can be extended for a maximum of five years. There are limitations on the number of foreign employees that can work for a company. Generally, the ratio of the number of foreign employees must not exceed 10% of the total workforce employed by the company (15% in the case of technicians).

It is mandatory by law to give the employees one day of holiday per week. This is usually Sunday. However, if the type of job requires an employee to work on Sundays,

another day shall be given instead, providing the hours worked on Sunday are paid with a 50% surcharge.

Employees shall not work in excess of 48 hours per week or 8 hours per day on daytime shift. For night shifts, the number of working hours should not exceed 42 hours per week or 7 hours per day. If the employee exceeds these hourly limits, he is entitled to receive a payment for the overtime worked.

Every employee is entitled to thirty days paid holiday after eleven months of continuous employment.

There is a special mandatory bonus that the employer must pay to its employees every year. It represents one month's salary, divided and paid in three equal instalments on 15 April, 15 August and 15 December.

This bonus is subject to social security contributions.

Panama has a minimum wage system by district and economic activity, which is periodically reviewed and fixed based on hourly rates. The minimum wage system is usually applicable to non-skilled employees. The effective average wages

are substantially higher than the minimum wages, especially in the metropolitan areas.

## Social security

The Social Security Fund is an autonomous governmental agency, which provides sickness and maternity leave, old age and disability, widows and orphans, pensions, funeral assistance and compensation for occupational death and injury.

Since the enactment of the Social Security Law 51 in 2005, it is mandatory for the employer to include all employees (whether locally employed or foreign) on its payroll for monthly reporting to the Social Security Office. This obligation applies for national or foreign employees that render services within the Panamanian territory. Currently, contribution for employee is 9% and 12% for the employer. According to law it will be increasing these rates progressively for the employee in the upcoming years up to a total of 9.75% in 2013.

## Immigration

A valid passport is necessary for foreigners to enter into the Republic of Panama. Panama has signed agreements with some countries eliminating the need for entry visas for passport holders from these countries.

Foreigners who require a visa to enter the Republic of Panama are obliged to provide it to the Panamanian Consulates located all over the world. They must give details of their time of arrival, place and length of their stay in Panama.

Foreigners with no visa requirements are allowed to stay for 180 days in the Panamanian territory under a tourist visa, but if more time is required or if they are working in the Republic of Panama, a special migration permit depending on the activity and time to be spent in Panama should be requested.

Foreigners are allowed to obtain a residence permit in the country for one or more years (depending on the type of the permit) if they complete all requirements from the Migration authority in Panama.

Once the foreigner, who requires a visa enters the country, he must register at the Foreigners

Section of the National Migratory Service Office. Affiliation at the Social Security Office in case of foreign employees is also required for most migratory permits (less few exceptions such as the temporary resident visa and the SEM visa). After the affiliation, relevant documents must be submitted to the Migration authority to obtain a temporary resident permit. This permit is usually granted for one year, however it can be granted for shorter periods at the discretion of the authorities.

After the migratory permit has expired, it can be renewed for the same consecutive amount of time up to a maximum of six years, by means of a previous request on behalf of the foreigner to the Migration authority, together with all the other requirements established by the law for each type of migratory permit.

## Work Permit

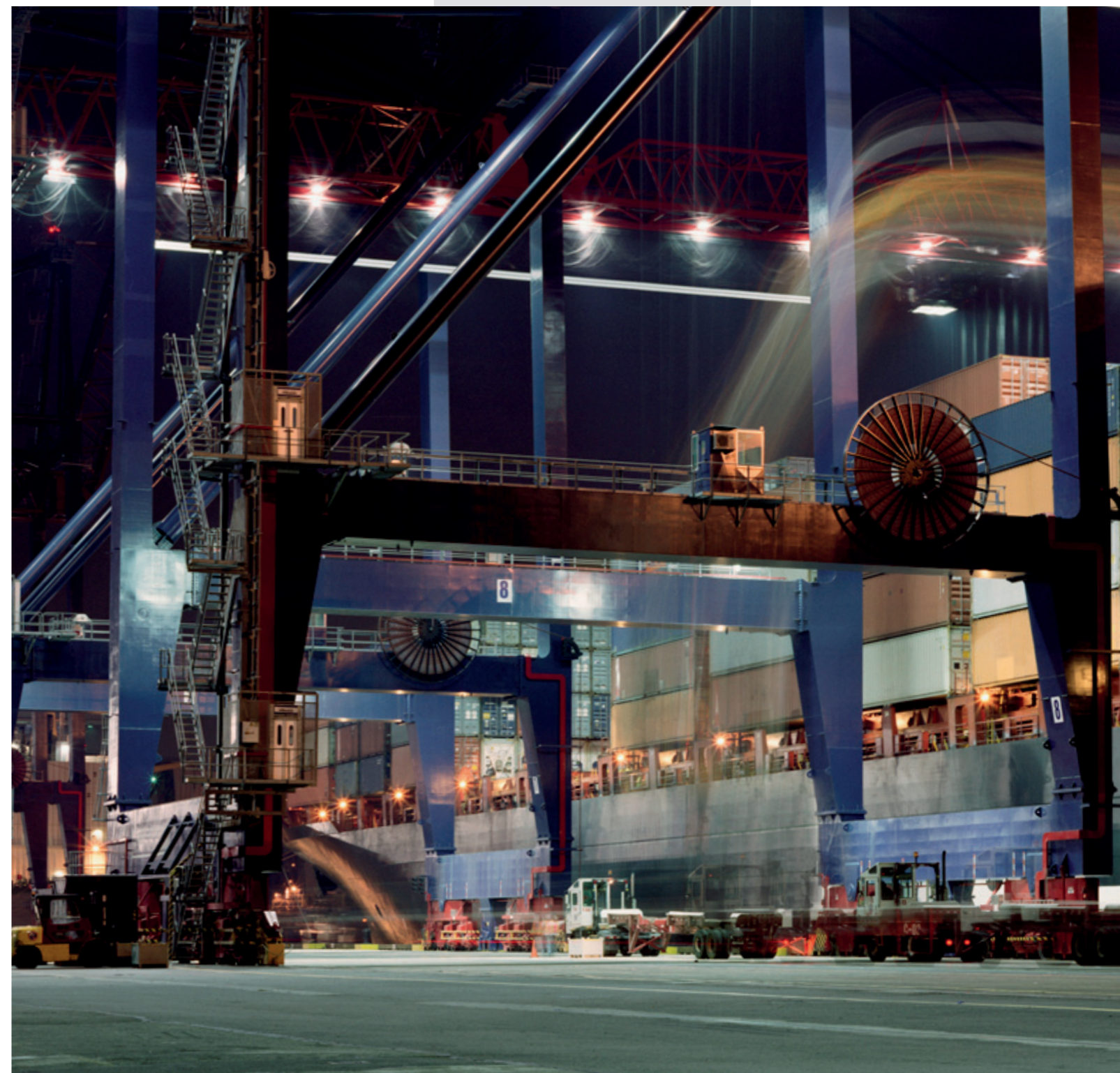
All foreigners who intend to work in Panama must obtain a work permit from the Ministry of Labour. This is a strict requirement, applicable even for short-term assignments to Panama, with the exception of two types of visa, SEM visa and a temporary resident visa.

The work permit is not issued with a tourist visa, consequently the foreigner should ask for the new appropriate migratory status (technician on the 15% or employee within the 10% of foreigners' visa). Employees should request the work permit once they arrive to Panama. The permit is usually granted for a maximum term of one year, but can be renewed annually for up to six years.

In order to obtain a work permit, a formal request from the employer and a confirmation of the employer's existence must be submitted to the labour office.

The formal request, together with the appropriate supporting legal documents, must be filed with the labour authorities by both the employee and the employer.

In Panama at least 90% of the workers, in every commercial or industrial corporation must be Panamanian or certain specified foreigners (such as foreigners married with Panamanians or foreigners with ten years of residency in Panama). 90% of the total wages and salaries must be paid to Panamanians and specified foreigners. In the specific case of technicians, the company is allowed to have up to 15% of its workforce comprised of foreign personnel.



# Trade

## Trade and Competition

Panama attaches great importance to free competition and measures to encourage direct foreign investment into trading activities in Panama. As a result:

- there are no price control mechanisms in place;
- there is an authority in charge of the surveillance against unfair trade practices;
- there are no exchange controls in Panama as it does not issue paper currency, using US dollars in the circulation instead. Consequently, there is no need for any exchange control authorities;
- there are no requirements for the registration of capital and there is no tax on the transfer of funds into the country. There are no controls over the repatriation of capital or retained earnings;
- there are no restrictions regarding mergers and acquisitions and no special restrictions on foreign investment in this respect; and
- in general, no restrictions are imposed on foreign ownership or investment.

The following figures show the foreign trade and balance of assets in Panama regarding import and export for the past two years:<sup>7</sup>

	2009	2010
Exports	820.9	725.1
Imports	7,082.5	8,274.8
Balance	-6,261.6	-7,549.7
Values in millions of US\$		

It is recommended that you take professional advice in order to comply with all the appropriate regulations and administrative procedures when investing in a particular sector. It should be noted that certain industry sectors, such as Financial Services and some utilities sectors (e.g. energy and telecommunications), are subject to additional regulations.

## Free Trade Agreements

Panama has bilateral free trade agreements with Honduras, Costa Rica, El Salvador, Taiwan, Singapore, Nicaragua, Guatemala and Chile, as well as the commercial agreements with The Dominican Republic, Mexico and Colombia.

In 2008 Panama concluded negotiations on the Trade Promotion Agreement with the US. This agreement is

aimed to promote investment opportunities in Panama by eliminating certain import tariffs and by introducing measures to promote the import and export of particular goods and services. To enter into force, the agreement needs to be approved by the congresses of both nations.

The agreement negotiated under Bush's Administration is still pending on approval by the new U.S. Congress and the Panamanian National Assembly.

## Money Laundering

In 2000 Panama enacted Law No. 42 which introduced the legal framework for measures designed to prevent money laundering practices in bank and fiduciary institutions.

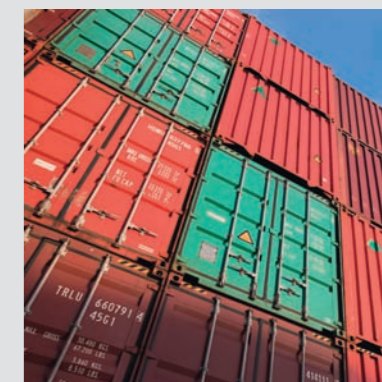
In accordance with the Law, all banks and fiduciary institutions are required to introduce measures and procedures designed to prevent money laundering practices, including:

- All banks and fiduciary institutions shall swear an affidavit to the Financial Analysis Unit (UAF) or request an affidavit from their clients or its representatives in the following cases:
  - Money withdrawal or deposit for amounts that exceed US\$10,000.00 or successive transactions in a short-term period exceeding US\$10,000.00.
  - Money exchange or cheques exchange for amounts that exceed US\$10,000.00.
  - Change of cheque to bearer notes with blank endorsement for amounts exceeding US\$10,000.00.

These affidavits shall be submitted to the corresponding surveillance departments, which in the case of banks and fiduciary companies will be the Banks Superintendence.

- To examine any operation, regardless of its amount, that may be related to money laundering activities.
- To inform the UAF of any transaction or operation that is presumably to money laundering activities.
- To establish internal control mechanisms and procedures in order to prevent money laundering activities.
- To keep information to reveal to the UAF as confidential.
- To keep the specified documentation for a period of five years.

Money laundering is classified as a criminal offence through Law No. 41 of 2000. The punishment for any attempt to launder money in a Panamanian bank is imprisonment for 5 to 12 years or pecuniary fine for 100 to 200 days.



<sup>7</sup> Source: National Institute of Statistics and Census, [www.contraloria.gob.pa/inec/comercioexterior](http://www.contraloria.gob.pa/inec/comercioexterior)



## Financial Services

The Financial Services industry in Panama comprises the insurance, securities and banking sector.

Each sector has its own set of rules as well as its own regulatory authority.

The corresponding regulatory body for each of the activities described above are the Insurances Superintendence, the National Securities Commission and the Banks Superintendence respectively.

Most of the activities related to the provision of financial services in Panama are regulated activities and consequently require an authorisation from one of the aforementioned authorities depending on the type of service to be provided.

It is important, therefore, to establish at an early stage whether your proposed business requires you to apply for authorisation to carry on regulated activities.

Examples of the types of business that are likely to require authorisation include:

- banks;
- investment firms;
- insurance companies and insurance intermediaries; and
- money lenders and intermediaries.

## Customs and International Trade

If your business involves the importation of goods into Panama from abroad, the goods will have to be declared for customs purposes and may be subject to customs duties and import VAT.

One of the incentives provided in the industrial development laws is protection from foreign competition by the establishment of import quotas or protective tariffs to some sensitive goods. Duties are levied on all articles of foreign origin entering the country, except for those exempted by specific laws or contracts. Duties are levied either ad valorem or based on quantity, weight, measure or volume. Rates vary from low to significant or clearly protective (low 0% – protective 33%). Import duties on many items are significant. It is advisable to obtain information on duty rates prior to importation of specific items.

A 7% value added tax (VAT) is payable on all imports, except for food, medicine and some other products. Cigarettes and alcoholic beverages are subject to a higher VAT at 15% and 10% respectively.

Documents relating to the payment of import duties and the re-exportation of imported goods must be prepared and signed by a local customs broker.



# Banking in Panama

Law Decree 1, 2008 amended the previous banking law of 1998 which created the Bank Superintendence, entity attached to the Ministry of Finance and Treasury. According to Panamanian banking laws there are three different kinds of banking licences, these are:

- General: For banks organised under the laws of Panama and branches of foreign banks conducting business in Panama and abroad.
- International: For banks organised under the laws of Panama and branches of foreign banks that only do business abroad.
- Representation: For foreign banks maintaining offices of representation in Panama but not engaging in the banking business for their own account.

Depending on the type of bank licence, different requirements apply in relation to their capital and reserves. Additional conditions might be imposed for certain licences.

In Panama, there are two national banks, Banco Nacional de Panama and Caja de Ahorros.

## Commercial banks and local financing

The Banks Superintendence is the governmental entity in charge of granting all licences to different banks that want to operate in the Panamanian territory.

Currently, Panama has one of the biggest banking and financial centres in the region including banking institutions from all around the world.

# HSBC in Panama

## Overview

### An International Brand

The origin of HSBC Bank Panama began in 1972, with a representative office. In 1973, the Panamanian government granted a general banking licence to practice in Panama City and later in 1983 to operate within the Free Zone of Colon. In 2000, HSBC bought the Chase Manhattan Bank operations in Panama.

In November 2006, HSBC Panama bought 100% of a local Bank, Banistmo, the leading financial services provider in Central America. By May 2009, the full transition to HSBC was completed.

HSBC Panama is also made up by HSBC Seguros and Financomer.

Today, HSBC Bank Panama has a network of 50 branches and 263 ATMs. The headquarters of HSBC Bank Panama is located in Marbella, Aquilino De La Guardia Avenue, Panama City, and employs approximately 2,400 throughout Panama in total.

We offer a range of banking services from Personal Banking, Commercial Banking, Global Banking and Markets and Private Banking. We look after over 400,000 individual active accounts and our Internet Banking service has 65,000 active users.

HSBC Group has more than 6,900 offices in 84 countries and territories, serving around 60 million customers worldwide.

### Corporate Sustainability

#### Corporate Sustainability at HSBC Panama

HSBC is committed to the principles of corporate sustainability, sustainable growth in profitability, building long-term relationships with our clients and managing the social and environmental performance of our operations.

Our corporate sustainability strategy is based on:

- direct impacts, setting objectives in order to reduce our environmental footprint derived from facilities and business travels. This includes energy, waste, water, and carbon dioxide emissions, in addition to incorporating sustainability in our purchasing decisions.
- the management of social and environmental risks related to sustainability impacts. We consider business reputational risk, alongside with credit risks, to ensure that funding is not allocated in sensitive sectors or activities that could pose a risk to sustainable development.
- sustainable business development, identifying opportunities from

environmental and social dimensions to produce an acceptable return for HSBC, with special emphasis on climate change.

- community investments, engaging in partnerships and philanthropic activities focusing on education, environment and contribution to our society, ensuring that these activities result in greater employee involvement, public perception and brand value.

#### Community Investment

Corporate social responsibility is part of our history and HSBC is aware of its importance in the community, and supports projects both financially and operationally with social, environmental and educational programmes in the countries and territories where we operate.

Our programme's focus is on children's education and environment. We dedicate 75% on education and environment; whilst the remaining 25% goes to projects in local communities.

#### Education Programmes

Education is key to prosperity. At HSBC, we open doors of opportunity for children and young Panamanians through our educational programmes. Our projects provide access to opportunities for success, positive attitude and hope for a better future.

#### Zippy's Friends

Zippy's Friends is a regional programme of social and emotional education. The programme helps children learn strategies to cope with difficulties, find useful solutions for themselves, take the initiative and understand the consequences of their actions.

In 2012, we attended 18 public schools in risk areas, we had outstanding results, covering more than 3,000 students and integrating teachers, parents and mothers.

#### More Than Money™

More Than Money is our comprehensive programme for financial education. In this programme our volunteers teach elementary school students about healthy money management in terms of managing earnings, expenses and savings.

In 2012, our volunteers participated implementing the programme in public schools, benefiting more than 1,600 students.

#### Environmental Programmes

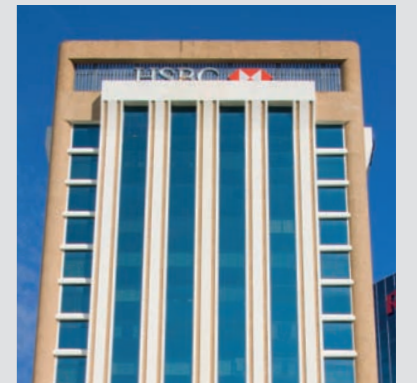
HSBC promotes environmental initiatives that are directly relevant to our national economy and our communities.

HSC Water Programme is our global programme focused on the delivery of water, sanitation and the management of water resources in communities.

In Panama we have developed a joint programme with the Smithsonian Tropical Research Institute called 'CHISPA'. It is a two-year science mentoring and environmental leadership programme that will engage 220 underserved youths in hands-on science learning led by a volunteer staff of young scientists and professionals of the Smithsonian Tropical Research Institute (STRI) and HSBC volunteers.

#### Corporate Volunteering Programme

Our projects in education, environment and social investments are made possible by our highly committed team of volunteers consisting of the Bank's staff and their families. In 2012, more than 800 employees participate as volunteers.



# Country overview

<i>Capital city</i>	Panama																												
<i>Area and population<sup>8</sup></i>	75,517 km <sup>2</sup> ; 3,405,813 million																												
<i>Language</i>	Spanish																												
<i>Currency</i>	Balboa (at par value with the US Dollar)																												
<i>International dialling code</i>	+507																												
<i>National Holidays for 2013</i>	<table border="1"> <tr> <td><i>New Year's Day</i></td> <td>1 January</td> </tr> <tr> <td><i>Day of the Martyrs</i></td> <td>9 January</td> </tr> <tr> <td><i>Carnival</i></td> <td>21-22 February</td> </tr> <tr> <td><i>Good Friday</i></td> <td>29 March</td> </tr> <tr> <td><i>Labour Day</i></td> <td>1 May</td> </tr> <tr> <td><i>Separation from Colombia</i></td> <td>3 November</td> </tr> <tr> <td><i>Flag Day</i></td> <td>4 November</td> </tr> <tr> <td><i>Colón Day</i></td> <td>5 November</td> </tr> <tr> <td><i>First Cry for Independence</i></td> <td>10 November</td> </tr> <tr> <td><i>Independence from Spain</i></td> <td>28 November</td> </tr> <tr> <td><i>Mother's Day</i></td> <td>8 December</td> </tr> <tr> <td><i>Christmas Eve</i></td> <td>24 December</td> </tr> <tr> <td><i>Christmas Day</i></td> <td>25 December</td> </tr> <tr> <td><i>New Year's Eve</i></td> <td>31 December</td> </tr> </table>	<i>New Year's Day</i>	1 January	<i>Day of the Martyrs</i>	9 January	<i>Carnival</i>	21-22 February	<i>Good Friday</i>	29 March	<i>Labour Day</i>	1 May	<i>Separation from Colombia</i>	3 November	<i>Flag Day</i>	4 November	<i>Colón Day</i>	5 November	<i>First Cry for Independence</i>	10 November	<i>Independence from Spain</i>	28 November	<i>Mother's Day</i>	8 December	<i>Christmas Eve</i>	24 December	<i>Christmas Day</i>	25 December	<i>New Year's Eve</i>	31 December
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<i>New Year's Eve</i>	31 December																												
<i>Business and banking hours</i>	Generally 9am to 5pm, Monday to Friday but many banks and businesses now operate extended opening hours																												
<i>Stock exchange</i>	Bolsa de Valores de Panamá																												
<i>Political structure</i>	Democratic government with a multi-party structure. There is a national Assembly. The State is divided into three branches: executive, judicial and legislative.																												

<sup>8</sup>Source – 2010 census, Office of National Statistics and Census.



# Contacts

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