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DOING BUSINESS IN PANAMA





COMPANY FORMATION IN PANAMA

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The Republic of Panama has historically served as the trading crossroads for the Americas and the World. Its strategic location as a World bridge between two oceans and the heart of the American continent, has made the Republic of Panama, not just a maritime and air hub, but also a system for international trade with a thriving Financial Center and other types of services such as Tourism. Panama, has been strengthened by the recent trade liberalization and privatization, and actively participates in the hemispheric movement toward free trade agreements and dollar-based economy. The Republic of Panama has an economy with very low inflation compared with neighboring countries and zero currency risk. Its government is stable, democratic and actively seeks foreign investment in all sectors, especially services, tourism and investment of pensioners to purchase their property.

CURRENCY

The official currency of the Republic of Panama is the Balboa; Panama as a country does not issue paper currency and in its place, according to the signed treaties with the United States, the dollar of the United States of America is used, which, is free circulation and change.

MAIN WAYS TO ESTABLISHING BUSINESS IN THE REPUBLIC OF PANAMA

In the Republic of Panama and based on its existing laws are different types of legal entities that an investor can use with the purpose of taking its business within a stable financial, political and legal framework. Covered under the Commercial Code of Panama, anonymous societies (entities), private interest foundations have become in a very attractive option for those who wants to protect their heritage; society types that are detailed below requires in its formality, hiring a lawyer.

SOCIEDAD ANÓNIMA (S.A., INC, o Corp)

This type of society (entity) is regulated by the Law 32 of 1927.

SOCIEDAD CIVIL

Is regulated by the Civil Code, Commerce Code and Law No. 24 of 1966. The partner's liability is limited. This type is selected with frequency by professionals, as lawyers, engineers, architects, physicians and accountants.

SOCIEDAD DE RESPONSABILIDAD LIMITADA (S de RL)

After the revocation of the Law 24 of 1966, the LIMITED LIABILITY COMPANIES are regulated by the Law 4 from January 9th, of 2009.

FUNDACIÓN DE INTERÉS PRIVADO

The private interest foundations, are governed by the Law No. 25 from June 12nd. Of 1995; and by the foundation bylaws.

DIRECT AND INDIRECT TAXES FOR LEGAL ENTITIES

1. Income tax
2. Warning operations



3. Municipal taxes
4. Obtaining Patronal Number on Social Security Fund
5. Sanitary permit (according the activity)
6. Fumigation certificate

LEGAL ESTABLISHMENT

In Panama, the following legal entities can be created:

1. Anonymous Society, Inc. (Sociedad Anónima) – an entity, structured to allow anyone who holds property to hide that ownership within this legal structure. This structure was established as a means to protect its assets from government corruption or dictatorial regimes.
2. Limited Liability Company (Sociedad de Responsabilidad Limitada)
3. Limited Partnership by Shares (Sociedad en Comandita por Acciones)
4. Simple Limited Partnership (Sociedad en Comandita Simple)
5. Collective Society (Sociedad Colectiva)

All of the entities require submit registration on the Public Registration. Once an entity is ready to begin to operate, it must complete the formalities to obtain the operations permissions.

The procedure to create a society (entity) requires the elaboration of a Constitutive Statement that must be formalized by an attorney, closing the protocol act by a notary and then be registered in the Public Record. Followed by registering in the Economy and Finances Ministry, DGI to manage the Taxpayer Registration (RUC) and its tax identification number (NIT). The Entity must manage the Operations Notice, processing its registration through the Social Security to obtain its patronal number, and register the company on the Municipality where it's going to operate the company in order to begin its commercial activity.

To open a foreign society (entity), all the documents, from the country owning the entity, must be legalized so they can be formalized and all described in the paragraph above could be settled.

By constituting a society it's important to know its line of business. Only Panamanian citizens may operate retail sales, while a foreign entity may operate wholesale sales.

OTHER TYPES OF COMPANIES

- AMPYME (Authority for Micro Small and Medium Enterprises), is the entity which regulates the micro small and medium enterprises in the Republic of Panama. These types of Companies can be formed by citizens born in the Panamanian Territory and for nationalized foreigners.

Classification of Micro Small and Medium Enterprises

- MICROENTERPRISES: That economic unit, formal or informal, generating annual gross income or revenue to the sum of B / . 150,000.00
- SMALL BUSINESS: That economic unit that generates gross annual income or from B / 150,000.01 up to one million balboas.
- MEDIUM: That economic unit that generates annual gross income or revenue from a million dollars with one cent to two million five hundred thousand dollars.

The annual gross income, is the total of income in money, specie or values, received or accrued in a fiscal year, less the returns, discounts or other similar concepts according the law.



PERMANENT ESTABLISHMENT IN PANAMA: BRANCH OR SUBSIDIARY?

PERMANENT ESTABLISHMENT DEFINITION

Our Fiscal Code in its Article no. 762-M defines, Permanent Establishment, as:

“Its considerate that natural or legal persons addressed in the foreign exercise operations in the Republic of Panama through a permanent establishment when its directly or through a proxy medium, employee or representative who have in Panamanian territory any local or fixed place of business or any activity center where develops, total or partial its activities.”

TAX RESIDENT DEFINITION

Our Tax Code in its Article No. 762-N considers the following statement about a Tax Resident:

“Natural persons who remain in National Territory for more than 183 calendar days or alternating days in a fiscal year or in the immediate last year are considered in The Republic of Panama as Tax Residents.” Likewise, are considered as Tax Residents those people who have established its permanent residence in territory of The Republic of Panama.

They are also considered Tax Residents of the Republic of Panama the legal persons formed according the Republic of Panama laws and have material resources of management and administration inside the Panamanian territory and that are duly registered in the Public Registry.

DIFFERENCES BETWEEN A BRANCH OFFICE AND A SUBSIDIARY

Classes of Direct Investment Companies

Branch Offices

Society (Entity) established in the Republic of Panama or not (foreign society) with 100% its shares belonging to another entity, which could be Panamanian or foreign (headquarters).

Subsidiary

The direct investor owns between the 50 to 100% of shares in this type of Company. It refers to the subordinated companies to others companies, to a group of societies which controls an adequate number of the voting shares to allow exercise an important influence in the politics of the company.

TAX AND FINANCIAL DUTIES

All traders are obligated to maintain official accounting books according to the established in the Trading Code and through the Decree Law 5 of 1997. Accordant to the norm, the trader must hold the following books:

A daily and a general ledger which must indicate clearly and precisely its operations, assets, liabilities and equity, the number and class of the accounting records, in any format that is in compliance with the International Financial Reporting Standards (IFRS).



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For the Anonymous Society (Inc.), in addition to these two books, the company must keep its minute book and registries of bearer within its ledgers.

These two books will be opened by a CPA and must be bound together, covered and foliated.

Additional, tax obligations are as follows:

- Income taxes
- Tax on Remittances or Transfers sent Abroad
- Tax on transfer of goods and services-ITBMS
- Taxation of Dividends
- Property taxes
- Notification of operation tax
- Municipal Taxes
- Stamp Taxes
- Unique Rate of Corporations
- Regimen of invoices in Panama
- Treaties to Avoid International Double Taxation
- Tax Incentives

BUSINESS REGISTRATION PROCESS

1. Hire an attorney: It is necessary to hire an attorney who represents as a society (business) agent and drafts the entity's constitution.
2. Notarize the public deed of incorporation.
3. Register the society in the Trade Division of the public record and make the payment of the single annual rate.
4. Process the Operation Notice from the website "Panama Emprende."
5. Apply to get the employer registration number with the Social Security Fund: health, retirement, unemployment and occupational risks programs are managed by The Social Security.



HOW TO HIRE MY FIRST EMPLOYEE IN PANAMA

FIRST MAIN STEPS TO HIRE AN EMPLOYEE

Before hiring employees, a company must first obtain all the permissions and licenses from the government.

The Panamanian Legislature requires that 90% of a company's workforce must be Panamanian, or a foreigner who is married to a Panamanian and has at least 10 years of residence in the country.

Only 10% of the total workforce of a company can be foreign. There are exceptions:

1. If technical or specialized staff is needed and doesn't exist in Panama, you may hire foreign employees to total up to 15% of your total workforce. You may also make a request to the Labor Ministry to allow a higher percentage of foreign employees on your workforce.
2. Companies with less than 10 employees can hire 1 foreigner.
3. Companies can employ foreign managers and supervisors when the company does business from Panama with a foreign entity, with the previous approval of the Labor Ministry.

The foreign employee must have or have obtained work permission prior to being hired or start the process once hired.