

Biz Latin Hub's

Snapshot of Employment Law in Panama

WORKING HOURS

An average working day is eight (8) hours long. The working week is divided into five (5) or six (6) consecutive working days, with a standard working week being between 40 and 48 hours.

TYPES OF EMPLOYMENT CONTRACT

There are three (3) types of labor contracts in Panama:

Fixed-term employment contract:

Can be for a period of days, weeks, months, or years. The general rule is that these types of contracts cannot exceed one (1) year. Exceptionally, they can last up to two (2) years for people with professional or technical qualifications. This type of contract can only be renewed once.

Indefinite-term employment contract:

These contracts will only terminate when both parties agree or when one can legally act unilaterally, such as in the case of a resignation or termination by just cause.

Specific task or project employment contract:

This is regarded as an "undetermined contract" as there is no specific or clear date for when the task or project will be completed. It is key to determine a priori clear objective markers or thresholds so there are no ambiguities regarding when the project will be completed.

STATUTORY CONTRIBUTIONS

1

Employee Deductions:

The employer will have the obligation to deduct from the employee:
Social Security contributions must be paid to the "Caja del Seguro Social" (CSS) at a rate of 9.75% of the gross salary. Educational insurance is also paid to the CSS at a rate of 1.25% of the gross salary. Income Tax is deducted at a rate of 15% of the gross salary, however the first \$11,000 are exempt from this tax.

2

Employer Contributions:

Social Security contributions must be paid by the employer to the CSS at a rate of 12.25% of the employee's gross salary. Educational insurance is paid by the employer to the CSS at a rate of 1.5% of the employees gross salary. Risk or accident insurance is paid by the employer to the CSS at a general rate of 0.98%, however that percentage can be adjusted according to the level of risk associated with the job role being undertaken.

VACATIONS, LEAVE, AND OTHER ABSENCES

Statutory vacation allowance / paid time off (PTO)

Thirty (30) PTO days are accrued per 11 worked months (at the rate of one day for every eleven days in service). PTO days can only be accrued for up to two (2) periods, e.g. 60 days accrued over a two (2) year period.

Under Article 59 of Panama's labor code, vacations are granted for the worker to enjoy rest, therefore it cannot be renounced in exchange for remuneration or compensation.



Maternity and paternity leave:

Maternity leave allowance is six (6) weeks prior to the due date and eight (8) weeks after the child is born. This is paid by the employer. Fathers are entitled to three (3) days of paid paternity leave.

Sick leave:

Each worker is entitled to 18 days of sick leave per year. The employee is obliged to present a certificate issued by a licensed doctor or clinic to demonstrate the validity of a sick leave claim. If such proof of inability to work is not presented, the employer has the right to discount from the salary the days that the employee didn't work.

Bereavement:

Panama's labor code does not specify any type of permission for the death of family members. Therefore, the granting of leave in case of bereavement must be negotiated with the employer.