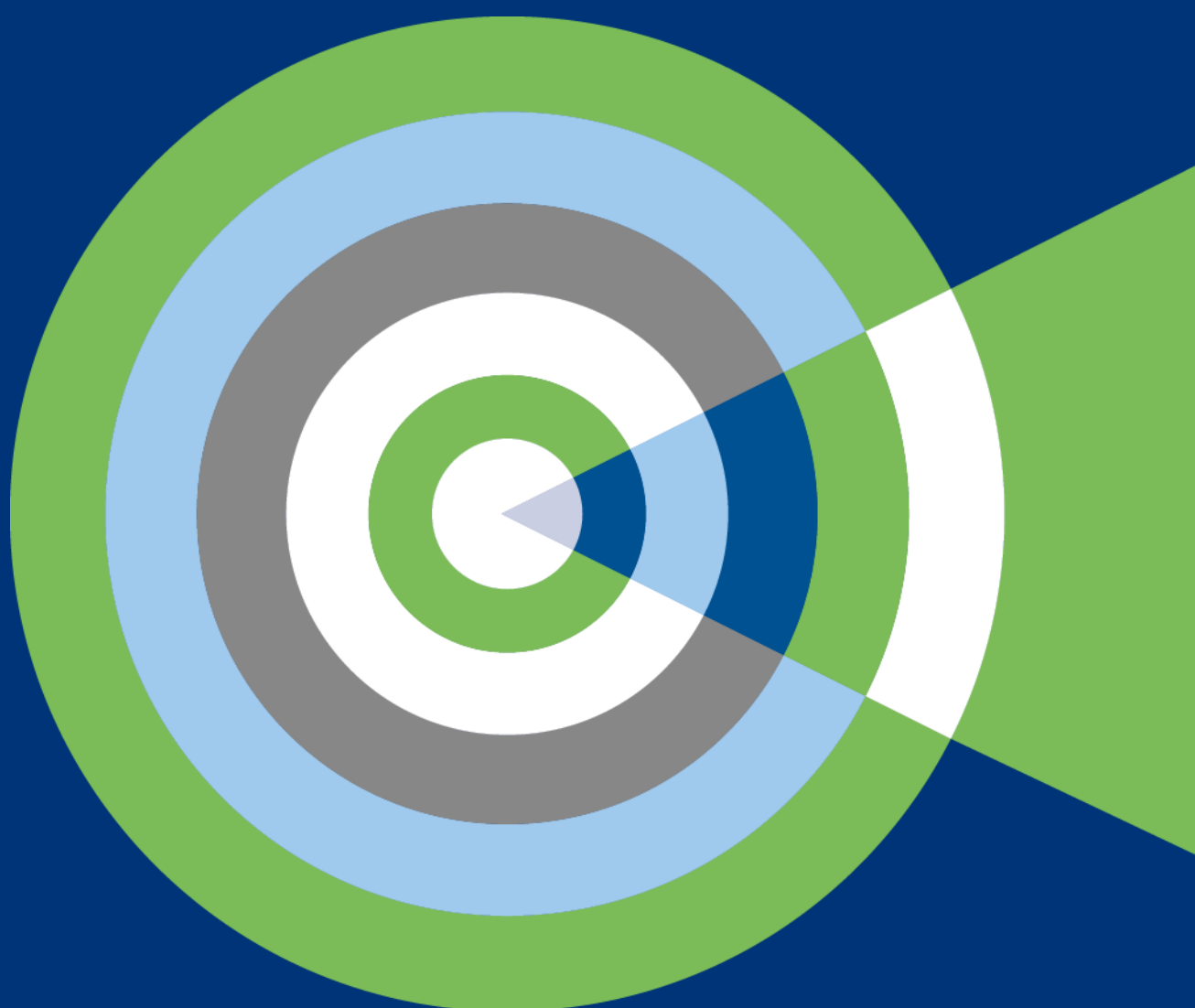


# DOING BUSINESS

IN PANAMA

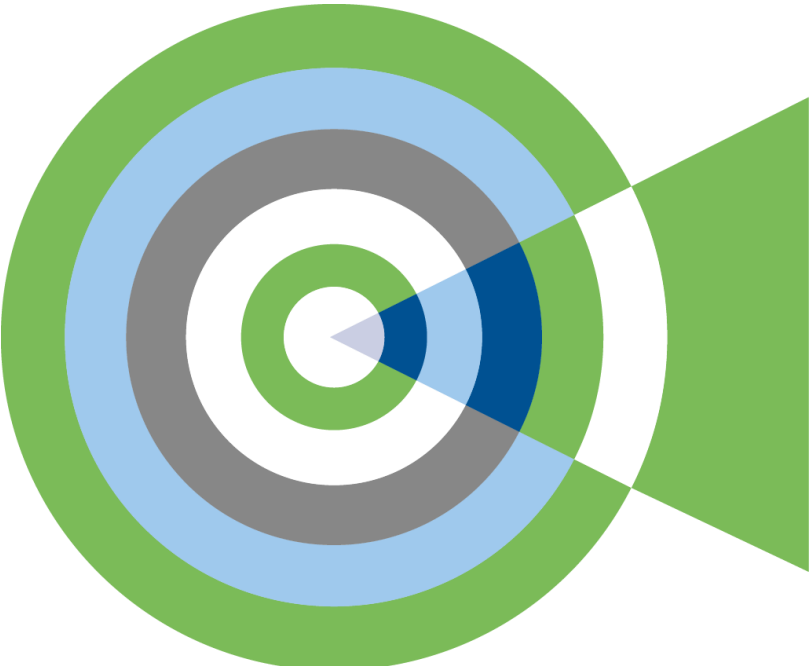


The network  
for doing  
business

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# 1 – INTRODUCTION

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UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 100 countries throughout the world.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Panama has been provided by the office of UHY representatives:

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Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at June 2021.

We look forward to helping you do business in Panama.

## 2 – BUSINESS ENVIRONMENT

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### GEOGRAPHY

Panama is located in the Central American region of North America between the Caribbean Sea and the North Pacific Ocean and is situated between the Republic of Colombia and the Republic of Costa Rica.

Panama is located along the narrow and low isthmus of Central America. This S-shaped isthmus is at 7–10° north in latitude and 77–83° west in longitude. Panama encompasses approximately 77,082 square kilometres of land, and is 772 kilometres in length and between 60–177 kilometres in width.

Panama has a tropical climate. Temperatures are uniformly high – as is the relative humidity – and there is little seasonal variation. Diurnal temperature ranges are fairly narrow; on a typical dry-season day in the capital city, the early morning minimum may be 24°C (75.2 °F) and the afternoon maximum 29 °C (84.2 °F). The temperature seldom exceeds 32 °C (89.6 °F) for more than a short time.

Temperatures on the Pacific side of the isthmus are somewhat lower than on the Caribbean side, with breezes tending to rise after dusk in most parts of the country. Temperatures are markedly cooler in the higher parts of the mountain ranges and frosts occur in the Cordillera de Talamanca in western Panama.

### HISTORY AND GOVERNMENT

Panama has several stages:

- Rodrigo de Bastidas, sailing westward in 1501 in search of gold, was the first European to explore the Isthmus of Panama.
- Christopher Columbus on his fourth voyage to the New World in the year 1502, touched several points on the isthmus.
- Vasco Nunez de Balboa visited the Isthmus and established a short-lived settlement in the Darién. Vasco Nuñez de Balboa's torturous trek from the Atlantic to the Pacific in 1513 demonstrated that the Isthmus was, indeed, the path between the seas, and Panama quickly became the crossroads and marketplace of Spain's empire in the New World. Gold and silver were brought by ship from South America, hauled across the Isthmus, and loaded aboard ships for Spain. The route became known as the Camino Real de Portobello, although it was more commonly known as Camino Real de Cruces. Panama was part of the Spanish empire for nearly 300 years, from 1538 to 1821.
- Independence of Panama from Spain was accomplished through a bloodless revolt between 10 November 1821 and 28 November 1821. On 10 November 1821, the first call for independence was made in the small provincial town of Villa de los Santos. Called the "*Primer Grito de Independencia de la Villa de Los Santos*".

- In 1850 the United States began construction of the Panama Railroad (now called the Panama Railway) to cross the isthmus; it opened in 1855. This overland link became a vital piece of Western Hemisphere infrastructure, greatly facilitating trade.
- The Thousand Days' War (1899–1902) was one of the many armed struggles between the Liberal and Conservative Parties which devastated Colombia, including Panama. This new civil war ended with the signing of the Treaty of Wisconsin. However, the Liberal leader Victoriano Lorenzo refused to accept the terms of the agreement and was executed on May 15, 1903.
- The separation of Panama from Colombia was formalized on 3 November 1903, with the establishment of the Republic of Panama. From the Independence of Panama from Spain in 1821, Panama had simultaneously declared independence from Spain and joined itself to the confederation of Gran Colombia through the Independence Act of Panama.
- During the construction of the Panama Canal, the initial attempts by France to construct a sea-level canal across the isthmus were secured through treaty with Colombia. The idea of a canal across Panama had been debated for hundreds of years. Linking the Pacific Ocean to the Caribbean, a canal would save merchant ships thousands of miles of travel. Spain, Colombia and the United States had all proposed the idea, but it was the French who would be the first to attempt it.
- On November 6, 1903, Philippe Bunau-Varilla, as Panama's ambassador to the United States, signed the Hay–Bunau-Varilla Treaty, granting rights to the United States to build and indefinitely administer the Panama Canal Zone and its defences. The Panama Canal is an artificial 82 km (51 mi) waterway in Panama that connects the Atlantic Ocean with the Pacific Ocean. The canal cuts across the Isthmus of Panama and is a conduit for maritime trade. One of the largest and most difficult engineering projects ever undertaken, the Panama Canal shortcut greatly reduces the time for ships to travel between the Atlantic and Pacific oceans. United States construction of the Panama canal, 1904–1914. SS Ancon was an American steamship that became the first ship to officially transit the Panama Canal opened in August 15, 1914.
- Panama Canal treaty between the United States of America and the Republic of Panama signed at Washington September 7, 1977 by Omar Torrijos and Jimmy Carter. This treaty agreed to transfer the canal from the United States to Panama on December 31, 1999.
- From 1903 until 1968, Panama was a constitutional democracy. Panama had a military dictatorship for 21 years, and ended on December 20, 1989. Actually, Panama was a constitutional democracy.

## DOMESTIC MARKET

### POPULATION

Panama has a population of more than 4,384,113.

## LANGUAGE AND LITERACY

Spanish is the official language. The literacy rate is 95.41%.

## ECONOMY

The economy of Panama is a fully-dollarized free market economy with a history of low inflation.

The economy is dependent mainly on the services sector, particularly banking, commerce and tourism. The hand-over of the canal and military installations by the United States to Panama has given rise to new construction projects.

Panama's economy is based primarily on a well-developed services sector that accounts for nearly 83% of gross domestic product (GDP). Services include the Expanded Panama Canal, banking, the Colón Free Trade Zone, insurance, container ports and flagship registry, medical and health, and other types of business.

The country's industry includes the manufacturing of aircraft spare parts, cement, drinks, adhesives and textiles.

Panama's top exports are bananas, pineapple, shrimps, sugar, and coffee.

Panama's GDP grew from USD bn 53.9 in 2016 to USD bn 61.8 or an increase of 7.9 % in 2018. Growth in the economy in 2018 was driven by an increase in international trade flows, as well as in public sector activities. An increase in container movements at ports, construction, financial services, internal demand, consumption of consumer goods and the export of goods and services all fuelled GDP growth in 2018. During the fourth quarter of 2020, the country's gross domestic product shrank 10.9 % year on year. This was following a 23.6% decline in the previous period, as the Global Covid-19 Pandemic crisis continued to hit global and local activity and demand.

## CURRENCY

The currency is officially the Panamanian balboa (PAB), fixed at parity with the United States dollar (USD) since independence in 1903. In practice, however, the country is dollarized; Panama has its own coinage but uses US dollars for all its paper currency.

## INTERNATIONAL TRADE

Established by Law No. 18 of 1948, the Colon Free Trade Zone, which is the largest free trade zone in the Western Hemisphere, is responsible for high levels of Panamanian trade.

## WEIGHT AND MEASURES

Panama uses the metric system, established by Law No. 52 of 11 December 2007. However, automotive fuel is sold by the gallon, and pounds, inches and feet are still sometimes used interchangeably with their metric equivalents.

## FINANCIAL SYSTEM AND INSTITUTIONS

### HISTORY OF BANKING

Banking activity in Panama dates back to the beginning of the Republic with the establishment of two important banks in 1904.

The first bank established in Panama was the International Bank Corporation, which later changed its name to First National City Bank of New York and today is known as Citibank, part of Citigroup, the biggest financial conglomerate in the world. The second bank was Banco Nacional de Panamá.

Some years later, several international and Panamanian banks started operations supporting the funding of commercial, industrial and agricultural activities in the country. In 1934, the Caja de Ahorros – which specialised in mortgages – was established. In 1948, Banque Nationale de Paris, which later changed its name to BNP Paribas, opened its doors, and in 1955, Banco General began operations.

It was not until 1970, 66 years after independence, that the first Banking Law was approved by means of Cabinet Decree 238, 2 July 1970. This law created the National Banking Commission, the regulator of banking activity in Panama.

Initially, the National Banking Commission (NBC) was ascribed to the Ministry of Finance and Treasury. In 1973, the entity was under the control of the Ministry of Planning and Economic Policy. It consisted of seven members with the right to speak and vote, of which three were senior public officials, three were bank representatives proposed by the Panama Banking Association and one was appointed by the executive branch. The last member could not be a director, officer or employee of a bank. The NBC was responsible for establishing a framework of policies fostering the development of banking activities. Additionally, the NBC could fix banking interests for certain types of deposits, as well as liquidity levels, legal bank reserves over domestic deposits and capital reserves for domestic operations.

The National Banking Commission was replaced by the Superintendence of Banks. Another important advancement was the modernization of the system. The Superintendence now has a state-of-the-art computer system which permits it to receive detailed information from banks through a highly secured computerized information transfer system. The Superintendence has increased the transparency of the system by providing periodic and updated information through its website, which allows users and the national and international community to have financial information available both at the macro level and from individual banks. This provides account holders, institutional investors and domestic and external analysts with updated and continuous assurance of the health and financial condition of our system. Additionally, since late 2002 the Superintendence of Banks has been presenting complete financial statistics on international assets and liabilities to the Bank for International Settlements (BIS) in Basel, contributing to an increase in the transparency of its operations.

The Superintendence of Banks – Panama by regulations consistent to international standards and effective banking supervision has managed keep the image of Panama's Banking Center as a leader in Latin America, thus prevailing the responsibility and commitment with banking services users; in terms of actions to be undertaken to

operate and carry out smoothly legal activities that promote our country's economic and social development.

This environment allows the national and international community to continue benefiting from the vocation and competitiveness of Panama as a place of secure, transparent, reliable and protected financial services from illegal activities.

## THE INTERNATIONAL BANKING CENTER

Panama's International Banking Centre offers investors a choice of 68 banks from over 25 countries.

Historically, the International Banking Centre grew and specialised in providing funds to Latin America as its main market. In 1982, the Banking Centre reached its largest size with the operation of 106 general and international licensed banks with assets of PAB 49 billion. Additionally, there were 12 representative offices, which elevated the number of banking licences to 118.

In 2020, the Panamanian banking system forms the largest part of the republic's financial sector and contributes a sizable 4.6 % to Panama's GDP. The country's banking industry is the most modern and successful in Latin America.

In Panama, there are no restrictions on the transfer of funds. Funds may be freely transferred in and out of the country, regardless of the purpose. The Overseas Private Investment Corporation in the United States provides guarantees on nationalisation or expropriation and against inconvertibility of currency. This is a significant advantage over many other countries, which strictly control the international movement of funds.

## MONETARY AND BANKING AUTHORITIES

Decree Law 9 of 26 February 1998 modified the banking regime and created the Superintendence of Banks, which was modified by Decree Law 2 of 22 February 2008.

The Superintendence of Banks is an autonomous institution of the state, with its own juridical personality, equity and administrative, budgetary and financial independence, ensuring its administrative and financial autonomy. The Superintendence has the responsibility for regulating and supervising banks, banking business and other entities and activities assigned to it by other laws.

The functions of the Superintendence are:

- 1) To ensure that the banks maintain adequate liquidity and solvency ratios to discharge their obligations, as well as adequate procedures that allow the supervision and control of their national and international activities, in close collaboration with foreign supervisory entities (if applicable)
- 2) To develop the regulatory framework of the banking regime. When this function is discharged by the Board of Directors, it will be done through rules, and when by the Superintendent, through resolutions



- 3) To impose the corresponding sanctions on those parties guilty of engaging in the banking business without proper authorisation
- 4) To discharge the functions that may be assigned to it by a Decree Law or by other laws.

The Superintendence has a board of directors and a superintendent, appointed by the executive branch. The board of directors is composed of distinguished professionals and entrepreneurs with no links to the banking sector and they are prohibited from being public servants. The directors remain in their positions for a period of eight years, renewable once only for an equal term. The directors are appointed in such a manner as to ensure, at any time, a gradual renewal. In case of the resignation of a director, his/her replacement will be appointed to fulfil the rest of the corresponding term.

The legislation strengthened the institutional aspects by providing administrative and financial autonomy to the Superintendence of Banks, with its own budget assigned from banking and supervisory fees, unlike the National Banking Commission, whose funds were consigned by the central government as part of the general state budget.

Panama is also a key centre for foreign exchange partly because there are no valuation or conversion concerns. Its currency, the balboa, is equal in valuation to the US dollar. Panama is the only independent country that has this exclusive right.

## 3 – FOREIGN INVESTMENT

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### BANKING INSTITUTIONS

#### OPERATING RESTRICTIONS AND LICENCES

Only those banks authorised by means of a banking licence, issued either by the National Banking Commission or the Superintendence, may use the word 'Bank' or any of its derivatives in any language, be it in their everyday name, their corporate name, their commercial denomination, description, letterheads, invoices, printed letter paper, announcements, advertising or by any other means or any other form that may indicate or induce anyone to think that they are engaged in or dedicated to the banking business. Specifically excluded from these provisions are those institutions or associations of a national nature that are exclusively dedicated to humanitarian or charitable activities, official entities engaged in the financing of social interest sectors and multilateral or international organisations recognised by the Republic of Panama.

Three types of banking licences may be issued:

- 1) **General licence:** This allows the licensee to engage in banking business within the Republic of Panama, as well as to carry out transactions that are perfected, consummated or have their desired effect outside the territory of the Republic of Panama, and to carry out whatever other activities that may be authorised by the Superintendence of Banks
- 2) **International licence:** This allows the licensee to engage, from an office established within Panama, transactions that are perfected, consummated or have their desired effect outside the territory of the Republic of Panama, and to carry out whatever other activities that may be authorised by the Superintendence of Banks
- 3) **Representation licence:** This allows licensed foreign banks to establish a representation office in the Republic of Panama and carry out whatever other activities that may be authorised by the Superintendence of Banks. Representation offices must always include the expression 'representative office' in all of their operations. A representation licence has to be requested directly by the bank that will be represented and may only be issued to that specific bank. Once the licence is issued, the bank may engage in representation activities through a branch or a wholly owned subsidiary

The Agreement No. 3 2001 (dated 5 September 2001) establishes the basic criteria for considering applications for general, international or representation licences by the Superintendent of Banks, the minimum requirements for granting the requested licence, and the essential documents that must be submitted with the licence application.

#### GENERAL AND INTERNATIONAL LICENCE

The application for banking licence of a bank in process of being formed, which will be organised as a corporation according to the legislation of the Republic of Panama, must be carried out through a lawyer or legal firm qualified to provide legal services in the Republic of Panama.

The applying bank or its promoting group will detail the fulfilment of the necessary criteria and requirements for the evaluation of the licence applications, by attaching the following documents to the application:

- a) Articles of incorporation
- b) Authorisation of the Board of Directors
- c) General information on the stockholders, directors and officials of the applicant and its promoter
- d) Summary of the bank's personnel
- e) Personal financial statements
- f) Information about the group or financial conglomerate
- g) Information about the financial activities of the group or financial conglomerate
- h) List of applicant's major investments: List of all the corporations in which the applicant and the subsidiaries that are consolidated with the applicant possess by themselves or together with another, an equity investment of more than 25% of the capital or more than 10% of the respective voting rights
- i) Capital distribution: Participation percentages of the applicant or its promoting group in the paid capital of the projected institution
- j) Consolidated and audited financial statements: Comparative consolidated and audited financial statements of the applicant and/or its promoting group corresponding to the last two closed fiscal years, together with temporary financial statements
- k) Auditors' registration and authorisation – name of the external auditor of the institution that will own the respective licence, along with a certification from the Technical Committee of the Ministry of Commerce and Industries of the Republic of Panama, which states that the external auditor that endorses the financial statements of the applicant and/or its promoter is duly authorised to practice that profession
- l) Publications and memories
- m) Project of activities to be developed / business plan
- n) Feasibility study
- o) Risk management
- p) Any other document, information or requirement demanded by the Superintendent.

#### COMPOSITION OF CAPITAL (BANKS)

All banks must comply with the capital funds required by the Decree Law and its regulations.

The Superintendence will establish the deductions from the capital base that it considers technically necessary.

#### MINIMUM PAID-IN CAPITAL

The minimum amount of paid-in or assigned capital, net of any losses, required to solicit and maintain a banking licence is PAB 10 million for a general licence and PAB 3 million for an international licence. Banks may not, at any time, allow a reduction of their capital below the minimum amount required.

In the case of an international licence, PAB 250,000 of the paid-in or assigned capital will be maintained as a guarantee deposit in Banco Nacional Panama or Caja de Ahorros. This deposit will earn interest at market rates agreed upon between the depositors and the government banks. This guarantee is established solely and exclusively in the favour of the Superintendence, for whatever purpose the Superintendence determines, for which reason the said deposit will not be subject to sequestration or garnishment or any other precautionary measures by third parties. The Superintendence is hereby empowered to modify, through an agreement, the amount of the minimum paid-in or assigned capital.

### CAPITAL ADEQUACY RATIOS

All general licence banks, as well as international licence banks, under the home supervision of the Superintendence, will maintain the following capital adequacy ratios:

- Capital funds equivalent to at least 8% of risk-weighted total assets and contingent off-balance sheet operations
- Primary capital equivalent to no less than 4% of risk-weighted total assets and contingent off-balance sheet operations.

### LIQUIDITY REQUIREMENTS

General licence banks and international licence banks who are subject to the home supervision of the Superintendence, must maintain, at all times, a minimum amount of liquid assets equivalent to the percentage of the total gross deposits that will be periodically fixed by the Superintendence. This percentage will not exceed 35%. At the time of enforcement of this Decree Law, and until the Superintendence decides otherwise, the percentage will be 30%.

In order to calculate the liquidity percentage, the deposits made by the home office or branch, subsidiary or affiliate outside the national territory to the general licence banks or international licence banks, will be excluded from the calculation of the total gross deposits.

### INTEREST RATES

Banks may freely fix interest rates on asset and liability operations, for which reason other laws or regulations that establish maximum rates of interest are not applicable to banks.

### ACKNOWLEDGMENT OF THE EFFECTIVE INTEREST RATE

Banks must indicate, clearly and unequivocally, the effective interest rates for their loans and deposits in statements of account, in contractual documents with their clients or whenever the latter request this information.

Furthermore, when a bank advertises a nominal interest rate in their publicity, they must simultaneously advertise the corresponding effective interest rate.

### PROHIBITION ON ACCEPTING STOCK AS COLLATERAL

Banks are prohibited from granting loans or credit facilities with the sole collateral of their own stock or stock of their bank holding company.

## CONCENTRATION ON ONE OBLIGOR

Banks and bank holding companies in which the banking group is consolidated, are prohibited from granting, directly or indirectly, to any one natural or juridical person (including those which form a group with the latter), loans or credit facilities or granting any other guarantee or contracting any other obligation in favour of said person, whose total exceeds at any time, individually or jointly, 25% of the capital funds of the bank.

All banks or bank holding companies subject to the home supervision of the Superintendence must comply at all times with its relevant prohibitions and limitations. International licence banks subject to the host supervision of the Superintendence must comply at all times with the standards of risk concentration and limitations on investments in other ventures set by their home supervisors.

Beginning with the enforcement of the Decree Law, international licence banks who, at the time, may not comply with these provisions will enjoy a period of two years to adjust to these requirements. The Superintendent, nevertheless, may extend this period by means of a considered resolution.

## PREVENTION OF MONEY LAUNDERING, FINANCING OF TERRORISM AND RELATED CRIMES

Banks and other entities supervised by the Superintendence are obligated to establish policies and procedures and internal control structures to prevent their services being used unduly for criminal purposes such as money laundering, the financing of terrorism and other related crimes similar in nature or origin. The Superintendence will establish the framework for the scope, functions, and proceedings of the said compliance structure.

Banks and other entities supervised by the Superintendence will submit the information required by law, decrees, and other regulations for the prevention of money laundering, the financing of terrorism and other related crimes similar in nature or origin, in force in the Republic of Panama. Furthermore, they are obligated to submit the aforementioned information to the Superintendence whenever it may so require.

Banks and other entities supervised by the Superintendence will adopt policies, practices, and procedures that will allow them to know and identify their clients and their employees with the greatest certainty possible, as part of the process of prevention. The Superintendence will be empowered to develop the pertinent standards, adjusted to the policies and regulations in force in the country.

## FOREIGN FINANCIAL INSTITUTIONS

The application for a banking licence for a bank organised as a corporation according to foreign legislation must be carried out through a lawyer or legal firm with suitability to provide legal services in the Republic of Panama. The applying bank or its promoting group must ensure the fulfilment of the necessary criteria and requirements for the evaluation of the application.

### REPRESENTATION LICENCE

Representation licences for foreign banks can only be granted to banks with a physical presence and main branch constituted outside the country, and with management and substantial operations in their country of origin, which must be subject to the control and supervision of a foreign supervisory body.

A representation licence will not be granted to banks that do not fulfil the requirements of capital adjustment, liquidity and other prudential standards established by the legislation and/or the respective foreign supervisory body.

The owners of a representation licence will not be able to perform, under the protection of the mentioned licence, any banking operation in or from their office in Panama, whether it be assets or liabilities, operations with banks with a general or international licence, with residents or non-residents, credit mediating, mediating in collections and/or payments, or of capital or trust goods management.

#### LEGAL AGENTS OF BRANCHES OF FOREIGN BANKS

Branches of foreign banks shall designate at least two empowered legal agents, both natural persons residing in Panama, one of which must be a Panamanian citizen.

Money and other property and securities deposited in international licence banks are considered domiciled in Panama and shall therefore be subject to the jurisdiction of Panamanian Courts.

#### CREDITORS OF BRANCHES IN PANAMA

During liquidation, the assets of a branch of a bank in Panama will first satisfy the obligations of creditors of the branch in Panama, be they local or foreign.

#### SUBMISSION TO PANAMA'S LEGISLATION AND JURISDICTION

Assets transferred or deposited in banks, either as a deposit, mandate or trust or any other type, shall be subject entirely to the laws and the jurisdiction of the Republic of Panama, except if the instruments implementing or evidencing their transfer state otherwise.

It is hereby declared a matter of public order and public policy that the assets of foreigner are fully subject to the principle of free will and of free disposal of property, even where the inheritance or the marriage laws of the country of nationality or domicile of the titleholder or grantor or founder or beneficiary provide otherwise.

#### MERGERS AND ACQUISITIONS

No bank which engages in banking business in or from Panama, and no bank holding company, may merge or consolidate or sell, wholly or partially, their assets when such sale is equivalent to a merger or consolidation without the prior approval of the Superintendency

In the event of a merger, consolidation or sale of a bank under reorganisation, the reorganiser or the reorganisation committee may, with the approval of the Superintendent, determine a term during which pre-existing deposits may not be withdrawn, during which time they will earn interest at the average market rate for said term, as determined by the Superintendence.

#### NEW BRANCHES

For the opening and closing of establishments and new branches, no establishments may be opened in Panama without previous notification to the Superintendence.

The prior authorisation of the Superintendency is required in the following cases:

- For the opening, in a foreign jurisdiction, of subsidiaries or branches of Panamanian banks or foreign banks operating in Panama
- For the closing or moving of an existing establishment, so that the Superintendence may watch over the orderly proceedings in order to protect the interests of the depositors of the said establishment.

## CAPITAL MARKETS

Through Decree Law 1 of 8 July 1999, the National Securities Commission of the Republic of Panama (*Comision Nacional de Valores*), hereinafter ‘the Commission’, was created to regulate the securities markets in Panama.

Its functions and main attributions are to promote and strengthen the favourable conditions for the development of the securities market, to decide upon requests for public offer registration and to issue, suspend, revoke and cancel the licences of stock exchanges, clearing corporations, broker-dealer houses, principal executives, brokers, analysts and investment advisors.

### LICENSING OF SECURITIES PROFESSIONALS AND REGULATED SUBJECTS

The Decree Law and its agreements establish the requirement for obtaining a licence from the Commission in order to act as a securities firm or investment advisor from and within Panama, regardless of the rendering of services over registered or unregistered Securities in the Commission. This legal requirement is also extended to those who act as chief executives, brokers and analysts.

Whenever the Commission has knowledge or well-founded reasons to believe that a natural person or entity is exercising activities relating to the gathering of funds or acting as an intermediary without the required licence or authorisation, the Commission shall be empowered to examine the books, accounts or documents belonging to any such person/entity in order to determine the facts and to order the suspension of any act, practice or transaction, including the trading of securities. Acting from or within Panama without a licence issued by the Commission is an administrative offence and crime.

### REGISTRATION OF SECURITIES AND REPORTS OF ISSUERS

The Securities Law sets out mandatory registration for the following securities:

- a) Securities subject to a public offering that requires authorisation by the Commission
- b) Shares of issuers domiciled in the Republic of Panama, that in the last day of the fiscal period have 50 or more shareholders domiciled in Panama, that own no less than 10% of the paid capital of the issuer (unless the shareholders that represent at least 75% of the issued and outstanding capital resolve to remain as an unregistered private corporation)
- c) Securities listed in a stock exchange in Panama.

### CONDITIONS FOR THE PURCHASING AND SELLING OF SHARES

The Securities Law establishes the possibility for broker dealer houses with a licence issued by the Commission to conduct the business of purchasing and selling shares and participation quotas of funds or investment companies incorporated and managed abroad, fulfilling the conditions, characteristics and notification requirements.



Fund or investment companies constituted and managed abroad must be authorised to conduct public offerings of shares or quota participations of a fund or an investment company and be registered by the regulating entity of a regulated securities market, must be managed by an investments manager authorised to act as such by a regulating entity of a regulated securities market and its custodian must be authorised to act as such by a regulating entity of a regulated securities market.

## INVESTMENT COMPANIES

If foreign companies are considering investing in or registering an investment company in Panama, the Commission has established procedures for the authorisation and licence of investment companies, investment managers who offer quotas of participation in Panama and those that only offer their participation quotas to persons domiciled outside the Republic of Panama.

Registered investment companies are formed or constituted in accordance with Panamanian laws or laws of a foreign State. Where the investment manager has his/her main address outside Panama, or manages an investment company with assets outside Panama, the custody of the assets is domiciled outside Panama.

Registered investment companies that only offer their participation quotas abroad or investment managers must prepare monthly account statements reflecting the details of the investments, the evolution of the net worth of the assets, the number of issued participation quotas and in circulation, interim financial statements and annual financial statements audited by an independent authorised public accountant, as well as a report of business indicators.

## REGULATION OF PUBLIC TENDER OFFERS

Public tender offers directed to shareholders of registered issuers are also regulated by the Securities Law. The Commission issued regulation in 2001 establishing the related procedures and the information that the offering entity has to provide and include in its prospectus.

The Commission is empowered to suspend a tender offer or the use of information material in connection with it.

## PENSION AND RETIREMENT FUNDS

Law 10 of 1993 created incentives for the constitution of pension and retirement funds in Panama.

The Commission has the power to regulate and supervise pension and retirement plans and to establish the requirements for issued licences to the organisations that manage these plans, as well as the rules applicable to the constitution and operation of retirement and pensions funds. Through Agreement 11 2005, the dispositions of Law 10 of 1993 were developed for pensions funds, retirement funds and other benefits, as well as the activities of investment managers and regulations for the authorisation, control and supervision of the managers of plans, pensions and retirement funds.

## INVESTMENT INCENTIVES

In order to attract foreign investment to the country, the Panamanian government has implemented certain laws regarding special economic areas and incentives.

These incentives are detailed in the following sections.

## SPECIAL ECONOMIC AREAS

### THE COLON FREE ZONE – DECREE LAW NO. 18 OF 1948

The Colon Free Zone was the first major free zone distribution centre in the Western Hemisphere. Because of its history, there is constant modernisation of warehouses, port and transit systems for all types of merchandise in order for the zone to maintain its position at the forefront of modern technology and to ensure it always offer a wide range of excellent services.

The main activities carried out in the zone are:

- Exportation and re-exportation
- Importation
- Manufacturing
- Sales
- Commercialisation and distribution of goods
- Refining and processing of goods
- Operations
- Transactions, negotiations or incidental activities relating to the establishment and operation of international free trade zones.

The main fiscal incentives of operating in the zone are:

- 0% tax on income from operations abroad
- 0% tax on products imported for re-exportation
- Exoneration from tax of certain services with effects abroad
- Highly competitive costs.

### CITY OF KNOWLEDGE– DECREE LAW 6 OF 10 FEBRUARY 1998

The City of Knowledge (*Ciudad del Saber*) is a scientific, technological and entrepreneurial park located by the Panama Canal in the former Fort Clayton. It has become an excellent model of how to transform a military installation into a centre dedicated to science, technology and education. The City of Knowledge operates within the Panamanian State by means of the Decree Law 6 of 10 February 1998.

Activities allowed in the park are:

- Scientific
- Technological
- Human development
- Cultural.

### PANAMA PACIFICO SPECIAL ECONOMIC AREAS – LAW 41 OF 20 JULY 2004

- Panama Pacifico incentives are aimed at attracting the following specific business activities:
  - Back office operations
  - Call centres
  - Multimodal and logistics services
  - High-tech product and process manufacturing
  - Offshore services
  - Data transmission, radio, TV, audio and video
  - Stock transfer between on-site companies
  - Maintenance, repair and overhauling of aircraft, and sale of goods and services to the aviation industry
  - Sale of goods and services to ships and their passengers.

### ESTABLISHMENT AND OPERATION OF FREE ZONES – LAW 32 OF 5 APRIL 2011

Free Zones are zones of free enterprise, specifically delimited, in which all infrastructure, installations, buildings, support systems and services are carried out under criterion of maximum efficiency and to attract established companies from all over the world.

These zones are for the establishment of enterprises from all over the world who are involved in the production of goods and services, advanced technology, scientific research, logistics services, higher education and environmental services, health services and general services.

Operators and promoters are able to establish free zones in any part of the national territory. Activities allowed in the zones are:

- Manufacturing activities
- Assembly
- Processing of finished or semi-finished products
- Logistical services
- Higher education
- Scientific research
- Advanced technology
- Environmental services, health services and general services.

### CALL CENTRES, EXPORT PROCESSING ZONES – LAW 54 OF 25 OCTOBER 2001

Law 54 of 25 October 2001, article 2, enables natural persons or corporate entities which own a concession issued by the *Autoridad Nacional de los Servicios Públicos* (ASEP) for the provision of call centre services or call centres for commercial export purposes may have recourse to the benefits granted by Law 25 of 30 November 1992 for Processing Zones.

These benefits shall only be applicable for the installation and operation of call centres for commercial use.

Through the Ministry of Commerce and Industries, call centres can be registered in the Official Registry of the Processing Zone as a 'Call Centre Services Company for Commercial Use in an international manner' and thus benefit from the incentives of Law 25 of 30 November 1992.

For this, the call centre shall comply with all the documentation and requisites demanded in article 1 of the Executive Decree 97 of 25 September 2002 and present its request to the *Dirección Nacional de Promoción de las Exportaciones*.

## **OTHER INCENTIVES**

### **PETROLEUM FREE ZONES –LAW 8 OF JUNE 1987 AND LAW 39 OF 2007**

The oil market is regulated by Law 8 of 16 June 1987 for activities related to the exploitation of hydrocarbons, which includes a series of tax incentives.

Cabinet Decree No. 36 of 17 September 2003 regulates the activity of oil-free zones in Panama and within these areas there is a special tax treatment.

### **PROTECTION OF ECONOMIC SECTORS – LAW 54 OF 22 JULY 1998**

The aim of this law is to promote and protect investment carried out in Panama's sectors of economic activity. The law establishes that foreign investors and companies in which they participate have the same rights and obligations that national investors and companies have, without any extra limitations than those established in the constitution and the law with regards to commercial and industrial freedom, and exportation and importation.

Economic sector activities covered are:

- Tourism
- Agricultural exports
- Mining
- Commercial and oil free zones
- Construction
- Electric energy generation
- Industrial
- Forestry
- Export processing zones
- Telecommunications
- Ports and railroads development
- Irrigation and efficient use of the hydraulic resources projects
- All the activities that are approved by the Cabinet Council on the previous recommendation of the Ministry of Commerce and Industries.

### **MULTINATIONAL HEAD OFFICE – LAW 41 OF 2007**

The function of a main/head office of a multinational company shall be to provide services only to the business group to which it belongs and with regards to allowed activities.

Allowed activities are as follows:

- Direction and/or administration of operations in a specific geographic or global area of a company in the entrepreneurial group
- Logistic services and/or storage of components or spare parts required for the fabrication or assembly of products to be manufactured
- The accounting of the business group

- The elaboration of plans that form a part of design and/or construction, or part thereof that is in line with the typical activity of the company's head offices or any of its subsidiaries
- Consulting, coordination and monitoring of market guidelines and advertising of goods and services produced by its business group
- The electronic processing of any activity including the consolidation of operations for the business group
- Financial management (treasury) for the business group
- Operational support, research and development of products and services for the business group.

#### MOVIE MAKING AND AUDIOVISUAL INDUSTRY – LAW 16 OF 27 APRIL 2012 AND EXECUTIVE DECREE 136 OF 19 SEPTEMBER 2012

These laws were introduced to promote and establish regulations for the movie-making and audio-visual industry.

The Panama Film Commission and its Technical Secretariat have been created, as well as the National Movie Register for foreigners. The movie-making and audio-visual industry is regulated in the national territory and there are fiscal, customs, labour and migratory incentives available for foreign productions and special areas which are assigned for the development of the movie-making and audio-visual industry. Permits for eliminating bureaucratisation and for guaranteeing prompt processes for production are available.

#### TOURISM INVESTOR INCENTIVES – LAW 80 OF 8 NOVEMBER 2012

The government of Panama is actively and aggressively promoting tourism on an international scale. As part of the program, the country has passed a comprehensive law for the promotion of tourism. Tourism has been declared a public service industry and one of national interest.

For the purposes of this law, a 'tourist offering' is understood to mean any commercial activity for the purpose of encouraging the stay of tourists in the country and the development of domestic tourism.

## 4 – SETTING UP A BUSINESS

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There are several different types of business entity in Panama.

The main types of business are:

- Corporations
- Foreign corporations
- General partnerships
- Civil partnerships
- Limited liability partnerships
- Comandite companies
- Foundations and trusts.

## 5 – LABOUR

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A common concern for American or foreign businesses operating in Panama is the country's labour code.

Businesses should be aware of the elements of the labour code, specifically costs and time set out for training or for laying off or firing employees. While the Panamanian Government has periodically revised the labour code, including a modest revision in 1995, it remains highly restrictive.

Several sectors, including the Panama Canal Authority, the Colon Free Zone and export processing zones/call centres are covered by their own labour regimes.

Employers outside of these areas, such as in the tourism sector, have called for greater flexibility, easier rules for the termination of workers and the elimination of many constraints on productivity-based pay. The Panamanian government has issued waivers to the regulations on an ad hoc basis in order to address employers' needs, but there is no consistent standard for obtaining such a waiver.

## 6 – TAXATION

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### INCOME TAX FOR INDIVIDUALS

Individuals in Panama, including citizens, residents and non-residents, are taxed only on Panamanian-sourced income.

Residents are subject to tax levied at progressive rates on an individual's taxable income for the year, which is calculated by subtracting allowable deductions from the total assessable income. Non-residents are subject to tax levied at a flat rate.

Tax progressive rates for individuals are based on net taxable income, with a maximum rate of 25%.

### NON-RESIDENTS OF PANAMA

A resident for tax purposes is any person who stays more than 183 days in Panama during the calendar year.

A non-resident of Panama is generally someone who spends less than 183 days in Panama in any calendar year. Extended business travellers are likely to be considered non-residents of Panama for tax purposes unless they enter Panama with the intention of remaining in Panama for more than 183 days.

A non-resident who remains for more than 183 days (continued or rolled over in the same fiscal year) and receives revenues subject to tax, will pay income tax according to the established rules and tax rates on individual residents of Panama.



## CORPORATE INCOME TAX

Any corporation, partnership, branch of a foreign corporation, limited liability company or any other entity considered a legal entity by the law, is subject to income tax on any profits or income generated in or derived from Panama.

### CORPORATE INCOME TAX RATES

The income tax is a flat rate of 25% on net taxable income.

There are certain special regulations concerning corporate income tax, such as in the following areas of activity:

- Insurance and reinsurance
- Fabrication of cement
- Administration of gaming and casino activities
- Mining
- The generation and distribution of electricity
- Telecommunications services
- Banking services and financial entities regulated by Law 42 of 2001.

These will be subject to the income tax rates shown in Table 2.

### ALTERNATIVE METHOD (INCOME TAX RETURN)

Legal entities with an annual taxable income greater than USD 1,500,000 calculate tax using two methods and pay the higher of the amounts calculated using these methods:

- Applying the corresponding tax rate to the net taxable income
- Applying the corresponding tax rate to 4.67% of the total income.

Furthermore, the law has established that if, during the determination of income tax, the legal entities have incurred a loss and the effective rate of income tax return is greater than the tax rate, the taxpayer can request the authority not to apply the alternative method and will have to deliver one series of requirements for approval.

### FOREIGN SOURCES

Certain earnings derived from the following activities are not considered to be Panamanian sourced:

- Invoicing by an office established in Panama for the sale of merchandise or goods for amounts greater than cost, provided the merchandise never enters Panama
- The directing of transactions by an office established in Panama of transactions that are completed, consummated or take place outside Panama
- Distributing dividends or profits derived from income not generated in Panama, including income derived from the two types of activities listed above.

## WITHHOLDING TAXES

- Payments realised to legal entities or individuals for professional services rendered in Panama or from abroad are subject to a 12.5% withholding tax. This includes services such as:
  - Professional services
  - Copyright income
  - Royalties, trademark, know-how, technological and scientific knowledge, commercial and industrial patents
  - Any service where the payment benefits a Panamanian resident or where the expense has been deducted in Panama.
- Payments on interest, commissions, and financial charges derived from loans or other financing paid to a non-resident directly or indirectly will be subject to a 12.5% withholding tax.

## DIVIDENDS

Dividends derived from taxable income are taxed at the source at a single rate of 10% for nominative shares and at the rate of 20% for bearer shares.

A corporation paying a dividend must withhold the tax and remit the withholding tax to the government within ten working days after declaring or paying the dividend, whichever occurs first.

## LOSSES

Losses may be carried forward for five years at a maximum rate of 20% per year. Loss deduction may not exceed 50% of taxable income in any year. A loss that is not deducted during a year within the five-year period may not be deducted in a subsequent period.

## FILING REQUIREMENTS

The calendar year is the fiscal year. However, under certain circumstances, a special fiscal year may be requested from the Director of Internal Revenue.

The Company must file a tax return within 90 days after the end of the fiscal year. Regulations have established an extension of up to one month to file an income tax return.

## VALUE ADDED TAX (ITBMS)

The standard rate of VAT in Panama is 7%.

Most consumer services and goods are subject to a 7% value added tax. Alcoholic beverages have a 10% tax rate and cigarettes have a 15% tax rate.

Some specific items are exempt from VAT:

- Food (except restaurants that serve alcoholic beverages which are taxed)
- Medicine and medical services

- House rentals with a contract period of more than six months, though house rentals with contract periods of less than six months are subject to VAT.

Registration for VAT is compulsory for businesses with a monthly turnover exceeding USD 3,000 or an annual turnover of USD 36,000.

VAT returns must be filed monthly. The last day to present the filing is the 15<sup>th</sup> of the following month.

### CAPITAL GAINS TAX

Capital gains taxes are paid at 10% of the calculated gain.

For real estate transactions, a 3% withholding is made at the closing as an advance payment against the 10% capital gains tax.

### OTHER TAXES

#### PREPAID DIVIDEND TAX

Local corporations must pay a 4% complementary tax on each fiscal year's net taxed profit on behalf of their shareholders if no dividends are declared. This 4% will be applied to dividend tax when dividends are declared. The rate for companies established in a free zone is 2%.

#### FRANCHISE TAX

Foreign and domestic corporations registered in the Public Registry are subject to an annual tax of USD 300, regardless of whether they are doing business in Panama. There is a penalty of USD 50 for late payment and after two years of non-payment of the franchise tax, there is a restoration of registry fee of USD 300.

#### ANNUAL LICENCE TAX

All industrial or commercial businesses, except those exempted by specific laws, are required to have a licence to operate. The annual licence tax is 2% of the company's net worth, including amounts owed to the foreign company's home office or affiliated companies. The tax is payable annually up to a maximum tax of USD 60,000.

For companies established in a free zone, this tax is 1% of the company's net worth, including amounts owed to the foreign company's home office or affiliated companies. The tax is payable annually up to a maximum of USD 50,000.

#### SOCIAL SECURITY CONTRIBUTIONS AND EDUCATION TAX

These are payments which are made monthly by employers and employees on the payroll of companies for the purpose of guaranteeing the workers' social security and retirement benefits at the national level.

The employer and employee's rates are summarised in Table 3 below.

TABLE 3

*Social security contributions paid by an employer and employee*

TYPE OF INSURANCE	EMPLOYER	EMPLOYEE
Social security	12.25%	9.75%
Professional risk	0.98–7%*	0%
Educational tax	1.50%	1.25%

\* Professional risk is payable by employers based on a worker's compensation and therefore rates range from 0.98–7%, depending upon the applicable risk classification.

## 7 – ACCOUNTING & REPORTING

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The body responsible for accounting standards regulation in Panama is the Technical Board of Accounting (Junta Técnica de Contabilidad – JTC).

During the 2005, the Technical Board of Accounting to adopt financial accounting standards to be used for the preparation of financial statements of companies in the Republic of Panama.

## 8 – UHY REPRESENTATION IN PANAMA

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# UHY BOTELLO & MARQUEZ PANAMA



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Year established: 2008  
 Number of partners: 4  
 Total staff: 17

## BRIEF DESCRIPTION OF FIRM

Since forming in 2008, UHY Botello & Marquez, S. A. has matured into a well-known, reputable accountancy, auditing and consultancy services provider to clients of all types. In the near future, the firm is planning to expand service lines within the different economic sectors of the Panamanian economy, always offering high standards in quality, professionalism and ethics.

UHY Botello and Marquez, S. A. are able to field a capable interdisciplinary team dedicated to providing our clients with whatever services they need to help achieve their goals.

## SERVICE AREAS

Audit & Assurance  
Tax Advisory and Tax Compliance  
Accounting Services  
Payroll and labour advisory  
Legal Advisory

## SPECIALIST SERVICE AREAS

Due Diligence  
Tax Consultancy  
Legal Consultancy  
Transfer Pricing

## PRINCIPAL OPERATING SECTORS

Construction  
Energy  
Finance  
Hospital and Health  
Retail  
Technology



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# UHY BOTELLO & MARQUEZ PANAMA



Transportation  
Wholesale

## LANGUAGES

Spanish and English.

## CURRENT PRINCIPAL CLIENTS

Confidentiality precludes disclosure in this document.

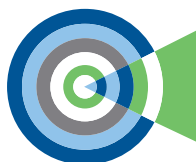
## OTHER COUNTRIES IN UHY CURRENTLY WORKING WITH, OR HAVE WORKED WITH IN THE PAST

UHY Guatemala, UHY Costa Rica, UHY Colombia.

## BRIEF HISTORY OF FIRM

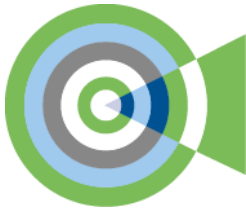
The firm started operations in May 2008 as B&M Contadores y Auditores, S. A., a Certified Public Accountancy firm founded by two ex-Big Four executives who wanted to provide a high quality service and personalized service to their clients. Later on, 2012 and 2017, respectively, two additional Partners were included, all are ex-Big Four executives.

The firm joined the UHY network In July 2012, renaming to UHY Botello & Marquez, S. A. The firm's practice strength is now significantly expanded through its involvement in UHY and our worldwide connections allow us to deliver far better client services than ever before.



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business





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