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MOORE STEPHENS (PANAMA) S.A.

Doing Business in Panama

Panama at a Glance

Population
2.9 million.

Climate
Tropical average temperature year around 85 degrees. In the mountains, 70-85 degrees.

Dry Season
Mid December to May.

Green Season
May to mid December.

Size
About the size of South Carolina (U.S.A): 29,208 sq. miles.

Language
Spanish. English a strong second.

Government
President Martin Torrijos.

Religion
80% Catholic
15% Protestant
5% Others.

Ethnic Groups
70% Mestizo
14% Black
10% White
6% Others.

Currency
Balboa = US Dollars

Economy
75% Service
16% Industry
10% Agriculture

Inflation Rate
1.5%

DOING BUSINESS IN PANAMA

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FOREWORD

This booklet has been prepared for the use of our clients, partners, and staff of firm members of Moore Stephens.

It is designed to give general information to those contemplating doing business in Panama and is not intended to be a comprehensive document.

The facts described in this booklet are current and correct as of the date below, therefore, we would recommend consulting us before taking further action based on this information.

Moore Stephens (Panama) S.A.
October, 2006

ABOUT MOORE STEPHENS INTERNATIONAL

Moore Stephens International Limited is one of the world's leading accounting and consulting networks with 440 offices in 91 countries.

Moore Stephens' member firms worldwide have specialized in providing audit, accounting and advisory services to their international clientele for 100 years. A wide range of services has been developed over the years to assist clients in meeting their cross border commercial objectives, and these are complemented by local services in each country to the same high standard of personal service that is the hallmark of the Moore Stephens' member firms worldwide.

GENERAL INFORMATION

LOCATION AND CLIMATE

The Republic of Panama occupies a narrow isthmus of 75, 990 square kilometers, located between the Republic of Costa Rica and the Republic of Colombia that connects Central and South America. Panamanian weather is pleasantly tropical, and uniform throughout the year. Panama has two seasons: rainy, from May to December, and dry, from January to April. The temperature fluctuates between 22 and 31 degrees centigrade all year around.

POPULATION

The Republic of Panama is divided politically into nine provinces and one comarca. The 2000 census established Panama's population at 2.9 million. Panama City, the nation's capital, established on the Pacific Coast of the Isthmus, has a population of over 1 million inhabitants.

CURRENCY AND LANGUAGES

Panama offers monetary stability, with a fully dollarized economy. Since 1904, the US dollar has been recognized by law as the unit of exchange in Panama (a great convenience for investor). Panama's official language is Spanish. English is widely spoken as a second language.

The Balboa is the currency of the Republic of Panama, at par with the United States of America Dollar (US$), which is legal tender and freely exchanged countrywide.

LEGAL SYSTEM

Panama’s legal system is founded on civil law; however, certain legal instruments which originated from foreign laws are incorporated in our legal system such as, corporations, private foundations, trusts and others negotiable instruments.

ECONOMY

Because of its key geographic location, Panama’s economy is based primarily on a well-developed services sector that accounts for nearly 80% of its Gross National Product (GNP). Services include the Panama Canal, the Colon Free Zone, banking, insurance, container ports and the international ships’ registry, medical and health, and other business.

SAFETY AND HEALTH

Panama is worldwide recognized for having the highest rating for tourist safety from the prestigious Pinkerton Intelligence Agency (the same rating as the United States). Additionally, Panama is the only country in Latin America where it is completely safe to drink tap water.

COMMUNICATIONS INFRASTRUCTURE

Panama telecommunication systems use the most modern technology throughout the country. Phone, internet, and fax services are excellent.

Panama offers: a transoceanic railway, a multimodal center of cargo and information, an extremely well-developed infrastructure for telecommunication services, and international connectivity using fiber optic, submarine cables via the Atlantic and Pacific Oceans and a variety of satellite systems.

INVESTMENT ENVIRONMENT

FEATURES

Panama as an international financial center

Some of the most important elements contributing to Panama's growth as an international financial center are: its geographic location, its role as an international commercial center, and the growth of the Eurodollar market.

Banking Law Decree Nº 9 of 1998, has improved the banking sector's competitive edge and since the creation of the Superintendency of Banks, the development of the International Banking Center of Panama has been fortified, consolidating this successful banking center as one of the most important in Latin-America. As of June 2006, ninety international and domestic banking institutions operate in Panama with a net average of consolidated assets of U$44,915 million dollars.

Reasons for the success of Panama as an important international financial center are:

- Free circulation of the U.S dollar
- The absence of monetary controls on remittance of capital, investments or foreign exchange.
- Tax exemption on interest earned on time deposit and saving accounts.
- Territorial tax system (only transactions carried out within Panama pay taxes) and tax incentives for a considerable number of activities
- Political and social stability.
- The existence of bank secrecy laws, which protect the right to privacy of the users of the financial center, except in cases of criminal investigations of activities like drug trafficking, money laundering, etc.

Securities Market

Law Decree N° 1 of 1999 created the National Securities Commission and regulates securities markets in the Republic of Panama and regulates the activities of security brokers allowing licensed brokers to deal with accounts on custody, act as consultants for investments, act as administrators of investing corporations (Mutual Funds), and grant securities loans (margin).

Law Decree N° 1 also provides improved protection for investors by:

- Allowing Stock Exchange Houses to contract debts as long as their own securities may guarantee their assets to investors, but under the National Securities Commission.
- Regulating all securities representation by means of accounting annotations, compensation and liquid assets.
- Allowing securities to be issued in non-materialized form, as long as the securities are represented by means of a recorded account. The recording of the account may be done physically, or by means of mechanic and electronic equipment.
- Granting special treatment for stockowners and other property rights over financial assets on custody accounts, but managed through an intermediary.

Some of the fiscal incentives granted by Law Decree N° 1 are:

- Income tax, dividend tax and complementary taxes may not be assessed on profits resulting from the transfer of securities issued by the State.
- Profits and losses from the sale of securities registered with the National Securities Commission are not subject to taxes if sold: (1) through an organized securities exchange; (2) as the result of acceptance of a public tender offer to purchase securities; or (3) as the result of a corporate merger, consolidation or reorganization as long as the compensation for the shareholders of the entities consists of stocks of the surviving or new entity.

Stock exchanges are required to have a paid-in capital of no less than one million dollars, free of encumbrances and the confidentiality of their operations must be assured. In addition, Stock Exchanges have to post reports of all transactions, stock transfers, prices, volumes and any other statistical data of interest to investors and the general public at the end of each day. An independent certified public accountant must certify the financial statements, for which a detailed and systematic registry must be kept. Corporations and other businesses, with listed securities on any exchange, have to submit, among other reports, annual audited reports to the National Securities Commission.

The Colon Free Zone

Established in 1948, the Colon Free Zone (CFZ), a segregated free trade area for wholesale operations located on the Atlantic entrance to the Panama Canal, offers the world a unique center for international commerce and is the leading free zone in the Western Hemisphere and the second largest in the world, after Hong Kong.

Goods entering the CFZ may be stored, modified, repackaged, and re-exported without being subject to import duties or taxes. Furthermore, companies established within the CFZ are exempt from taxes on the repatriation of capital, and on the payment of dividends on external, transfer or direct operations, as they are defined further ahead. There are no consular fees, nor any other charges, levied on shipments destined to the Free Zone, or on shipments from this area to consignees abroad. A Surveillance Service Fee is charged by the Customs authorities for the custody of re-exported goods.

Setting up operations: To operate from the CFZ, companies must obtain an Operation Code from the CFZ Administration, an autonomous governmental entity. No business license is required, and no minimum investment requirements exist. The CFZ Administration charges a US$200 annual fee for maintaining the Operation Code applicable to all companies.

Operations may be carried out in any one of the following ways:

- A company may lease premises from the CFZ, provided that it exports at least 60% of the goods handled.
- A company may lease land lots within the CFZ to build warehouse facilities, for its own use or letting to other companies.
- A company may lease warehouse facilities owned by CFZ established companies. This form of operation requires a special authorization from the CFZ authorities, in addition to the Operation Code, known as an Operation Permit, which requires the payment of a US$1,200 annual fee.
- A company may enter into a contract with an established CFZ company that will represent it.
- A company may use the public warehouse, where goods may be received and stored.

Sales operations. Companies operating from the CFZ may carry out the following operations:

- External operations -- to export merchandise from CFZ warehouses to other countries.
- Internal operations -- to sell merchandise from CFZ warehouses to customers located within the customs territory of Panama, provided that import duties are paid.
- Transfer operations -- to sell merchandise to other CFZ companies.
- Direct Sales -- to sell to foreign customers merchandise that is shipped directly from the source to the customer, without ever touching physically Panamanian territory.

Tax and trade advantages. Companies operating from the CFZ enjoy numerous trade advantages, along with special tax incentives, such as:

- Income earned from export operations, transfer operations and direct sales are not taxed.
- Income earned from internal operations is subject to income tax at a rate of 30% of the net taxable income.
  We define taxable income as the amount resulting from subtracting the following from the taxpayer's total income:
  a. Exempted or non-taxable income.
  b. Income from a foreign source.

Law No. 6 of February 2, 2005 states that juridical persons will pay income tax at a 30% rate over whichever amount is the greater of:

Traditional method

a. The net taxable income resulting after deducting from the taxable income the following concepts:
    a. Exempted income
    b. Total of deductible costs
    c. Total of deductible expenses
    d. Incentives

Alternative calculation of income tax (ACIT)

b. The taxable income resulting from:
    - Total of taxable income
    - Minus 95.33% of the taxable income

- In those cases where sales prices include the tax on fuel and oil by-products, as well as the tax on certain goods and services, taxpayers may subtract the amount of such taxes from the total of their taxable income for the purpose of determining the taxable income subject to the ACIT method. In the case of agents such as insurance brokers and travel agencies, calculation of the ACIT shall be made over the totality of the fees received.
- Dividends paid on profits obtained from external operations and from direct sales are not subject to dividend taxes.
- Royalties paid from the Colon Free Zone to companies established abroad are not subject to withholding tax, but the expense is not deductible for the payee.
- No municipal taxes.

The CFZ takes advantage of all the facilities that surround it, from the mature commercial infrastructure to Panama's port system, which has enabled the biggest terminals in America to be developed, such as Manzanillo International Terminal, Colon Container Terminal, Panama Ports Company, and Colon 2000. At this time, the CFZ is looking to consolidate its position as one of the Hubs of Panama's Multimodal International Transport and Services Logistics Center, thereby guaranteeing that it will play an important role in Panama's services sector.

Export Processing Zones

Law No. 25 of November 23, 1992, creates export processing zones, and grants incentives, including special labor provisions applicable only within such zones. The incentives benefit both, export companies and promoters. Export companies are those engaging in industrial manufacturing, assembly, high technology, as well as specialized and certain general services. On the other hand, promoters are those authorized to operate the zone, acquire land, develop and construct infrastructures and buildings (offices and factories); sell or lease buildings and facilities, construct, promote, and develop technical, educational, sport, medical assistance, and public service centers; provide gas, electricity, water, sewage, security, garbage and industrial residue processing, and other services required for the zone's operations. Promoters operate through a 20-year contract, renewable for an equal term.

Promoters (export companies) are entitled to the following incentives:

- Total exemption from import duties, as well as sales taxes on the import of machinery, equipment, accessories, spare parts, and materials used in the construction and maintenance of the zone's infrastructures and buildings. This exemption is allowed only when such items are not produced in the country in sufficient quantity, acceptable quality and at competitive prices. Prices which do not surpass more than 20% of the Cost, Insurance and Freight value of similar foreign products, are considered competitive.
- Total exemption from real estate taxes on land and buildings of the zone.
- Total exemption from income taxes for ten years (starting from the day the contract becomes effective).
- Total exemption from income taxes from the eleventh year, on the profits reinvested in the development and expansion of the zone's infrastructure, in excess of 20 percent of the total taxable income in the fiscal year.
- Total exemption from taxes levied on capital or assets, except for the franchise tax.

- Special provisions to carry over losses for income tax purposes, whereby the losses suffered during any year can be deducted from the taxable income of the three immediate following years. The deduction can be made during any of the three years or prorated among them.

The Maritime Registry

The Panamanian Maritime Registry continues to be the world's leader in ships registered by tonnage. The National Merchant Marine was created by Law N° 8 of 1925, when the open register system was adopted, and restrictions concerning nationality and residence were eliminated. The Panamanian Maritime Registry accepts ships owned by nationals and foreigners alike, provided that all legal provisions in force are complied with, especially those related to the administration of vessels, safety, pollution control standards, technical criteria and fiscal matters.

The Panamanian Maritime Registry offers ship-owners the following advantages:

- An open Registry. Any person or company, regardless of nationality or place of incorporation, is eligible to register ships under the Panamanian flag.
- Low registration fees compared to other countries.
- Total exemption from income taxes on income derived from the operation of vessels engaged in international trade.
- No minimum tonnage requirements. Vessels 20 years old or older, however, will have to pass a special inspection, in order to obtain a Permanent Navigation Patent.
- A provisional ship registration, valid for six months, may be obtained with limited formalities in Panama through an attorney, or in ports abroad where an authorized Panamanian Consul is acting.

Another advantage of the Panamanian Maritime Registry is the Bareboat Charter System (dual registry), which allows a foreign vessel to be registered in Panama for a period of two years without losing its previous registration. A Certificate of Consent from the country where the vessel is originally registered will be required for this purpose. The same applies for a Panamanian registered vessel applying for a bareboat charter registration in another country. Panama will grant such a request as long as this is allowed by the other country's registry.

Law N° 36 of July 6, 1995 grants special fleet or high tonnage discounts on registration fees provided that the ship(s) to be registered belong to the same ship-owner or economic group. The discounts are as follows:

A. In the case of a group of newly built vessels consisting of a minimum of three vessels, the discount on enrollment fees will be granted in accordance with the following scale:

	DISCOUNT	GROSS TONNAGES
From the minimum of	15%	50,000-59,999.99
To the maximum of	50%	300,000 and more

B. In the case of a group of newly built vessels consisting of a minimum of three vessels, the discount on annual taxes will be granted in accordance with the following scale:

	DISCOUNT	GROSS TONNAGES
From the minimum of	30%	100,000.01-149,999.99
To the maximum of	50%	300,000 and more

C. In the case of one single vessel with a gross tonnage higher than 100,000 tons, a discount of 50% will be granted on the enrollment fee only.

Tourism

The Tourism Master Plan for Panama was established in 1993, recognizing the preponderant role that tourism could play within the country's economy, as well as the impact it could have on the country's workforce.

Tourism legislation has been updated to take into account changes carried out worldwide, and provide investors with more adequate incentives for tourism development. Currently, investors can be eligible for the following benefits:

Hotels and Tourist Attractions. Law Nº 8 of June 14, 1994 grants the following incentives for the construction and rehabilitation of hotels and other tourist attractions:

- Total exemption for twenty years from import duties on construction materials, furniture, equipment and other items, such as tablecloths, linen, towels, glassware, as long as such items are not manufactured in the country.
- Total exemption from real estate taxes for twenty years, provided that the investment represents at least US$300,000 for hotels and motels located in the cities of Panama and Colon; or US$50,000, for those located in any other place in the country.
- Total exemption from wharfage on piers, and usage fees of airports constructed or rehabilitated by the investor. These facilities may be used by the government at no cost.
- Total exemption from income taxes on interest from loans, utilized in hotel and motel investment operations.
- Special depreciation rate of 10 percent per year on real estate property.
- Exemption from any tax levied over the net worth of the company.

Companies may establish casinos in hotels, upon obtention of the corresponding operating license from the government. Contracts, for the operating of casinos are granted for a twenty-year period.

Special Tourist Zones. The Law grants companies that invest in the promotion or development of Special Tourist Zones, the following benefits:

- Total exemption for twenty years from import duties on machinery, equipment, spare parts, airplanes, helicopters, boats, ships, sport equipment, buses, and automobiles.
- Total exemption for twenty years from landing taxes and fees on piers and airports, constructed or rehabilitated by the company.
- Total exemption for fifteen years from income taxes.
- Total exemption for twenty years from real estate taxes.

Incentives for industrial sector

Manufacturing industries comprise two kinds of industries: those devoted to the transformation of raw materials or semi processed goods and to the manufacture of goods, including those derived from agriculture, marine, or forestry and assembly industries devoted to the manufacture of finished goods through the process of joining materials and semi processed parts. In order for these industries to benefit from the incentives provided by the law, they must export their total production, with the understanding that they would be also entitled to apply for tax credits granted in the form of certificates (Certificado de Abono Tributario – CAT). Companies performing complementary activities such as marketing or industrial products packing, not involving an industrial transformation, do not qualify for this incentive.

Incentives for hydrocarbon related operations

Law Nº 8 of June 16, 1987 promotes and regulates: (1) the exploration and exploitation of oil fields, asphalt in its natural state, natural gas and other hydrocarbon activities; (2) refining and transportation by pipelines; and (3) the storage, marketing and export of exploited or refined substances.

Contractors are granted the following benefits:

- Total exemption from income taxes on profits derived from such activities, during the first five years of production or until the initial investment is recovered; whichever comes first. From then on, the contractor shall pay, as income taxes, 25% of the profits from the production of hydrocarbons.
- Total exemption from import duties on machinery, equipment, parts, and any other items, necessary for the execution of the activities under the contract.
- Special carry-over provisions for income tax purposes.
- Special depreciation schedules for machinery and equipment.

Mining

Mining in Panama began in colonial times. Gold, silver, zinc, lead, manganese, iron and copper are some of the minerals that have been found in Panama. The Department of Mineral Resources of the Ministry of Commerce and Industries, is the governmental agency responsible for formulating mining policies, overseeing mining operations, performing geological studies, preparing geological maps and statistics, and maintaining a file of mining concessions, among others.

Reforestation

Law N° 6 from 2005 grants income and dividend tax exemption to revenues from reforestation activities, such as the sale of trees.

Law N° 24 of November 23, 1992 provides incentives in reforestation, which include: the exemption from import taxes and other fees for goods and supplies, the exemption from payment of the real-estate taxes and from the tax on the transfer of real estate property for parcels of land dedicated to reforestation on 75% of their surface and registered with the national environmental authority (ANAM).

GOVERNMENT INCENTIVES

Potential investment opportunities

Panama encourages investment from both foreign and national investors, offering numerous tax and financial advantages to firms involved in manufacturing, export, tourism and other activities.

The government encourages foreign trade through the promotion and diversification of exports. The objectives of this promotion are to identify new products for export markets, promote non-traditional exports, and recommend export incentives.

Panama is striving to upgrade and expand its entire export infrastructure. Ports, especially, those at Balboa and Cristobal (at both entrances of the Panama Canal), are undergoing development programs aimed at providing greater and more modern services. In the agricultural sector, Panama offers many advantages for investment. The fishing industry has room to expand and the government is actively trying to attract foreign investment in seafood processing plants and other fishing and maritime related enterprises. In recent years, research has shown good opportunities for the export of lobsters, and Red Snappers. There is also a great potential for trout farming. The country's proximity to U.S. consumer markets, its manufacturing system, and its qualified labor force, are some of Panama's major advantages to investors.

SOURCES OF FINANCE

Banking. Recently, Panamanian banks have come forward to satisfy the demands of loans to foreigners coming to live in Panama and looking for opportunities in the real estate sector. Programs based on this trend have shown how aggressive the Panamanian banking industry is, as it undertakes credit request based on the foreign source of income at very competitive interest rates. Most programs will require a debt to income ratio of not more than 40%, proven source of income and good historical credit.

Local finance companies. The Ministry of Commerce and Industry authorizes the operation of Finance companies, which must obtain a Commercial License and must have a minimum paid-in capital of US$500,000.

Finance companies, although small, are part of Panama’s Financial Center, and contribute to the economic development of the country by providing financial resources to individuals and small companies. These types of companies are authorized to lend funds, but may not accept deposits.

Financial leasing activities. Financial leasing activities are conducted by licensed banks or companies so authorized by the Superintendency of Banks. Some of the benefits granted to these activities are: (1) Depreciation for the lessor on the number of vessels of the leasing contract, with a minimum of three years; (2) Deductibility of expenses inherent to the leasing contract, such as insurance premiums; (3) For vessels engaged in international trade registered in Panama, the income from the lease will not be considered as taxable income in the Republic of Panama; (4) At the end of the contract, the lessee has the option to depreciate the asset according to its residual value; (5) The value of the lease will be considered as a deductible expense for the lessee, as long as he utilizes the leased asset in the production or maintenance of the source of his taxable income; and (6) because this type of contract is considered a financial contract, the amounts paid by the lessee are not subject to sale taxes.

The lessor must habitually engage in leasing contracts and be the owner of the leased goods.

International leasing contracts are also granted additional incentives, such as total exemption from income taxes, stamp taxes, and sales taxes. For depreciation purposes, the lessee can be considered as the owner of the equipment, so that both the lessor and the lessee can be considered simultaneously to depreciate the equipment. Parties can also agree upon the transformation of a local contract into an international contract, or vice versa.

FOREIGN EXCHANGE CONTROLS

In Panama, there are no foreign exchange regulations.

EMPLOYMENT REGULATIONS

The Republic of Panama has had a tradition of stable individual and collective labor relations, with a large number of successful collective bargaining agreements executed each year, and a minimum of conflicts and strikes in comparison with other countries in the region. These particular conditions make the Panamanian market an attractive destination for foreign investments.

Employment contracts

Employment contracts must be in writing and in three copies (for the employer, employee and labor authorities). In the absence of a written contract, the presumption of the existence of the labor relation will work in favor of the employee, therefore any fact or circumstance alleged by an employee will be presumed to be true, unless the employer proves beyond a reasonable doubt that it is not. The contract may be for an indefinite or a definite period of time, or for a specific project.

All written labor contracts can state a three-month probationary term, provided that the type of service to be hired requires special skills, and if it has been expressly stated in the contract. The maximum term for a definite period contract is one year. A definite period contract, becomes indefinite, if the employee: (1) continues working after the definite period expires; (2) continues working after the specific project for which he was hired is finished; or, (3) when succeeding contracts for a definite period, or contracts for a specific project are entered into. This rule will not apply during the first year of operation of the company or whenever the employee is hired for a new company activity.

Visa requirements

Most foreigners will enter Panama under a Tourist Visa or a Tourist Card that will allows them to stay in the country for a 30 or 90-day period, depending on the citizenship, renewable for an additional period of 90 days. Almost all Latin Americans, some Europeans, Chinese from Taiwan and U.S. citizens are allowed to enter Panama with just a Tourist card, which can be obtained from almost all airlines flying into Panama. Tourist visas are issued by the Panamanian Embassy's. All foreigners who stay in Panama for more than 90 days must register with the Immigration Office, and will receive a Tourist Card to be returned at the port of exit. All foreigners authorized to reside in Panama will need a re-entry permit valid for up to two years to allow them to go abroad and return to the country, which may be valid for one or multiple trips as needed.

There are different types of entry visas under Panamanian immigration laws that authorize an alien to reside in Panama. The most common among businessmen are: the Immigrant visa, recommended for those intending to reside permanently in Panama while they work or do business here: the Temporary Visitor's visa, applicable to technicians, specialists, students, and other foreigners having a transitory stay in Panama: the Special Temporary Visitor's visa, suitable for personnel of international services in companies and banks, with operations that will take effects out of Panamanian territory, who have a monthly salary of at least US$1,000, from sources located outside the Panamanian territory.

Other visas include the Investor's visa, a kind of Immigrant visa for those who wish to invest in commercial, financial or industrial activities. There is also the Tourist-pensioner visa, for those who receive a retirement pension of at least US$500 per month, plus US$100 per dependent; and the Retired pensioner visa, for those who receive a monthly income of at least US$750, coming exclusively from interests earned on five-year time deposit accounts held at the National Bank of Panama. All foreigners who apply for any kind of Panamanian visa are required to submit a police certificate for themselves, their spouse, and all dependants over 18 years of age issued by the authorities of the place of birth or where he has leaved the last two years; as well as, the marriage and birth certificates of their children. Foreigners planning to work for a Panamanian company will also require, a work permit from the Ministry of Labor and Social Welfare. All documents issued by foreign authorities shall be duly authenticated by Apostille or by the Panamanian Consul from the place it is issued.

Work permits

Foreigners wishing to work in Panama must obtain authorization, in the form of a work permit, from the Ministry of Labor and Employment Development. Work permits are valid for one year, and may be renewed. Companies employing foreign personnel must maintain a certain proportion between local and foreign workers. Local personnel are defined as Panamanians, foreigners married to Panamanians, and foreign employees with at least 10 years of legal residence in Panama. Employers are allowed to hire up to 10% of foreign employees, in the case of administrative workers, and up to 15% in the case of specialized or technical personnel. Exceptions can be made exclusively for companies supervising operations or transactions carried out abroad.

Salaries and minimum wages

Salaries in Panama can be fixed by unit of time (month, fortnight, week, day or hour), task, or by a specific job. Salaries include any money, gratuities, bonuses, premiums, commissions, profit sharing, and any other income or benefit employees receive as payment for their work. However, these are only considered as salary for the calculation of vacations and seniority. Employees must be paid at least biweekly.

The Law establishes minimum wage schedules for specific activities, which vary in different geographical areas and which should be revised every two years. The last revision was in the year 2006, and the highest was established in B/.289.00 per month.

Payroll Costs

Employers must pay 10.75% above the monthly salary for Social Security, plus 1.5% for Educational Security. Additionally, Panama's labor laws contemplate the obligation to establish a fund for seniority to be paid at the end of the labor relation, with a 1.92% of the monthly salaries, and also the obligation to save in the fund, every three months, the equivalent to 5% of the monthly quota of the severance payment to be paid to the employee in the event of a justified resignation or an unjustified dismissal.

Work day

Four different work shifts are established. These are as follows:

- Day shift, consisting of a maximum of eight hours from 6:00 a.m. to 6:00 p.m., with a maximum of 48 hours in a week.
- Night shift, consisting of a maximum of seven hours from 6:00 p.m. to 6:00 a.m., with a maximum of 42 hours a week.
- Mixed shift, consisting of 7-1/2 hours, including both the day shift and the night shift, with a maximum of 45 hours a week. A mixed shift with more than three night shift hours is considered to be a night shift.
- Rotational shift, for companies required to employ personnel at different hours, according to the companies' activities and needs.

For the night, mixed, and rotational shifts, employees receive the same payment as for the day shift, even though their work time is shorter. A working day consists of the total time the employee cannot freely use, when is at the service of the employer.

Overtime

Hours worked in excess of the maximum hours defined above, must be paid as overtime. Minimum overtime rates, as follows:

- Twenty –five percent (25%) surcharge, for hours worked during the day shift.
- Fifty percent (50%) surcharge for hours worked during the night shift, for hours worked in excess of a mixed shift initiated in the day period, or for work performed on any day of rest (i.e., Sunday).
- Seventy five percent (75%) surcharge, for hours worked in excess of the night shift or a mixed shift initiated in the night period.
- A hundred and fifty percent (150%) surcharge, for hours worked on a holiday or day of national mourning, and an additional paid day of rest.

Three hours per day and up to nine hours per week, are the maximum legally allowed overtime. For overtime in excess of this limit, the employee is entitled to receive a 75% surcharge.

Export industries and small businesses have special dispositions regarding overtime. These companies pay a unique 25% surcharge over regular salary for overtime, and 50% for work performed on holidays.

Panama's legislation does not distinguish between top executives and other employees. Therefore, in theory, they are all entitled to overtime. However, in the practice it is very seldom paid.

Vacations

Employees are normally entitled to 30 days of annual leave every year. Annual leave is accrued at the rate of one day for every eleven days of work. The employee may not wave annual leave for payment however, it can be accumulated for up to two years, by mutual agreement, but there is a minimum rest period of 15 days during the first year. The thirty-day period can be divided into no more than two equal parts. Employees working for companies established in export processing zones might enjoy annual leave in advance, even if not earned, provided that the operating cycle allows it.

Thirteenth month

Since 1970 every employee working in Panamanian territory is entitled to a thirteenth month payment, a fictional additional month of salary, to be paid in three parts during the months of April, August and December.

Holidays

Working on holidays is not permitted, except in certain listed economic activities, such as hotels, restaurants, public services, etc. Recharge of 150% above the normal hour rate of salary is to be paid. There are exactly 10 holidays per year, stated in the Labor Code, plus the day in which the president takes his post every 5 years.

Sundays

Working during Sunday or weekly day of rest must be paid with a recharge of 50%.

Termination of the labor relations

With only a few exceptions, such as in the case of domestic employees, it is required to dismiss in writing. If based in a justified cause, the letter should express the date of the fault, as well as a summary of the employees actions. Employer may only dismiss an employee under the justified causes listed in Article 213 of the Labor Code, which include not only disciplinary but also economic causes. In the Republic of Panama the parties can not create causes for dismissal and have to strictly apply the ones contemplated by the law.

An employee working with an indefinite duration contract dismissed without any justified cause of dismiss, will have the right to severance payment. Article 225 contains the rates for the severance payment that the employer will have to pay for an unjustified dismissal.

Employees that have not completed two (2) years of continuous labor can be dismissed without cause, through a pre notice from the employer given to the employee one month in advance (or pay the month) plus a severance payment equivalent to 3.4 weeks of salary per year.

The termination of the labor relation can also be by through resignation from employee or by mutual consent. The resignation letter requires to be previously sealed by the Labor Department.

All forms of termination of the labor relation, including justified dismissal, give the employee the right to vacation payment, Thirteenth month, and seniority.

Seniority

At the termination of INDEFINITE DURATION labor relations, the employees are entitled to a seniority prime equivalent to one week of salary per year of effective labor.

Maritime labor

Law N° 8 of February 26, 1998 regulates maritime labor in a special manner, different from the general regime contemplated in the Labor Code, and expressly excluding from it stevedores, apprentices and Panama Canal employees.

Some of the key points are:

- The law decree allows private crewing agencies to function from the Republic of Panama.
- The working shift contemplated in the official Labor Code is not strictly enforced, because the working shift on-board ships will depend on the type of service the ship will render, and the crew will be hired based on these facts.
- The salaries will be determined by the ship's articles, and will depend on the type of service the crew will render, as long as it covers the base salary, overtime, vacations, holidays and any other type of compensation or bonus to which the ship-owner has agreed.
- It expressly sets out the causes for justified dismissal.
- A compensation scale is approved for professional risks due to accidents.

- Crew-members are given the option to be covered by the ship owner’s insurance or by the Social Security of the Republic of Panama.
- It creates within the Judiciary System, the Maritime Labor Courts dedicated exclusively to attend maritime labor claims.
- Any lawsuits arising from the ship owner’s obligations shall be resolved promptly and inexpensively by using summary proceedings, before the maritime labor courts of Panama, to the exclusion of any other court, unless otherwise agreed to in writing between the ship owner and the crew-member as part of the Ship’s Articles (Jurisdictional Clause).
- It establishes a national foundation for nautical education of seafarers in Panama.

TYPES OF BUSINESS STRUCTURES

According to Panama's Constitution, nationals and foreigners are equal under the law. Therefore, both Panamanian and foreign companies must fulfill the same basic requirements to organize and operate in Panama. However**,** there are restrictions on foreigners operating retail trade activities and to practicing certain professions.

Individuals may engage in permitted business activities in their own names or through legal entities. The following are the different types of legal entities that exist in Panama:

CORPORATIONS

Law 32 of 1927 regulates Panamanian corporations limited by shares. Corporations are the most commonly adopted form of Legal Entity in Panama. Today, there are more than 300,000 registered Panamanian corporations in our Public Registry, engaged in all kinds of legal business enterprises all over the world including financial, banking, insurance, agribusiness, tourism, trading, transport, consumer goods, warehousing, etc.

The main advantages of the Panamanian corporation, are:

- The corporation may engage in any lawful business, as authorized by the Articles of Incorporation, both within and in any country outside of the Republic of Panama.
- Shares may be issued in nominative or bearer form, with or without nominal value, with designations, voting rights, and preferences as established in the Articles of Incorporation of the Company.
- Meetings of the board of directors of the corporation may be held in any country and the directors may attend the meetings personally, by proxy, or by electronic means.
- The Incorporators and the Directors of a Panamanian company need not be Panamanians and may be natural or juridical persons. The minimum number of directors required by law is three (3).
- The companies may issue Powers of Attorney and these Powers of Attorney may be registered in the Public Registry of Panama.
- A corporation engaging in business in the Republic of Panama and also in other countries will only pay income tax in Panama on the part of its income obtained from business transacted locally.
- Panamanian Legislation does not tax dividends received by corporations, if the said dividends are paid out of income produced outside its jurisdiction. Therefore, a Panamanian corporation receiving dividends from another corporation paid out of income produced outside of the republic is not subject to tax in Panama.
- Companies pay a flat rate annual license fee of only US$300.00.

INCORPORATION PROCEDURES

- Contact a local attorney who will act as resident agent for the company.
- Provide required information to resident agent
- Articles of Incorporation must be prepared by the resident agent. A Notary Public must notarize this document.
- The notarized document will be registered at the Public Registry of the Republic of Panama.
- The Resident agent will prepare share certificates and legal records of the corporation.

- Documents certifying the authenticity and good standing of the corporation are requested. These documents have to be certified by the nearest Panamanian Consul at the place of origin.

The Articles of Incorporation must state at least the following basic information:

- Names and domiciles of the incorporators.
- The name of the corporation, which must include the words **sociedad anónima, corporation, incorporation, or incorporated**, or their abbreviations; and which cannot be similar to the name of any other previously registered corporation.
- The main purposes of the corporation, and/or a statement declaring it may engage in any lawful activities.
- The amount of the authorized capital stock and the number and class of shares into which the capital is divided. Shares may be issued with or without par value. These shares may be of different classes, values and rights. Also, shares may be issued in registered form, bearer form or both.
- The domicile of the corporation, and the name and domicile of its resident agent, who must be a licensed attorney or law firm of the Republic of Panama.
- The duration of the corporation, although it is usually stated that it shall have perpetual existence.
- Full names and addresses of directors must be indicated as well as who hold office as president, secretary and treasurer. The same person may hold more than one office. For practical purposes, it is not recommended that the same person may be appointed as President and Secretary.
- A foreign corporation may have branch offices or agencies to engage in business in Panama.

PARTNERSHIPS

The responsibility of the partners is unlimited, unless the partnership instrument provides that the partners will be liable only for a sum that cannot be lower than their contribution to the partnership.

There are different forms of partnerships:

Simple limited partnerships are limited partnerships with both general and limited partners. General partners share in the management and are jointly and severally liable for the partnership's debts. Limited partners are liable only up to the amount of capital that they have invested.

Joint stock partnerships are limited partnerships, similar to simple limited partnerships, but with the partners' capital represented by shares.

Limited Liability Companies. Under this form of organization, the liability of the partners is limited to their individual capital participation. It is required to state in the name of the partnership the Spanish words "sociedad de responsabilidad limitada" or the initials "S. de R. L."; otherwise, the partners' liability will be unlimited.

INCORPORATION FEES

Incorporation fees are the same for corporations and partnerships that are calculated in accordance to the following schedule and vary according to the registered authorized capital, for example:

AUTHORIZED CAPITAL	REGISTRATION FEE
-For the first US$10,000	US$60
-From US$10,001 up to US$100,000	US$141
-From US$100,001 up to US$1,000,000	US$681

BUSINESS LICENSE

In order to engage in commercial or industrial activities in and from Panama, all corporations, partnerships or individuals, must obtain proper authorization in the form of a business license from the Ministry of Commerce and Industries. Additional permits may also be required depending on the nature of the activities.

Exceptions for business license requirements are granted to natural persons or legal entities engaged exclusively in agriculture, cattle, bee, or poultry raising, or in the manufacturing and sale of handicrafts, provided that the work is not performed by hired workers. Licenses must be kept at all times in a visible and accessible place. An annual tax is levied based on the net worth of the company, as stated in the income tax return. There are three basic types of licenses involved depending on the nature of the company's activities:

- Commercial License Class A: Is required for wholesale operations, commercial and mortgage banks, financial companies, international financial brokers, insurance and reinsurance companies, international transportation companies, mutual funds, public utilities, and high-technology service companies.
- Commercial License Class B: Is required for retail businesses, including representation agencies, service companies, bars, restaurants, drugstores, real estate agents, gas stations, local transportation, distributors and others. This license is only granted to Panamanians or corporations owned solely by Panamanians, as defined previously in this booklet.
- Industrial License: Is required for extractive and manufacturing industries, as well as construction companies.
- Additional Licenses: Banks and trust companies must obtain operating licenses from the Superintendency of Banks. Insurance companies, insurance brokers, reinsurance companies and reinsurance brokers must also obtain authorization from the Superintendency of Insurance and Reinsurance. Securities brokers must obtain licenses from the National Securities Commission.

OTHER TYPES OF JURIDICAL PERSONS
Trusts

Trusts are regulated in Panama by Law N° 1 of January 5, 1984, which has provided added flexibility in the creation and management of trusts, following modern concepts derived from Anglo-Saxon law, which makes Panamanian trusts different from those existing in other civil law jurisdictions.

The following are a few of the salient features of Panamanian trusts:

- Parties to a trust can include all types of clauses, provided, they do not violate the law, morals, or public interest.
- Trusts can be created by means of a private document, except for trusts of real property located in Panama or certain in Rem Rights. Even trusts with mortis causa effect, can be created by private document without the need for a will, if the trustee is licensed by the Superintendency of Banks and authorized to engage in the trust business.
- The duration of a trust can be indefinite. The anti-perpetuity provisions that previously existed have been eliminated.
- The trust instrument is not recorded or published, thus it is in fact a private document. However, the trust company must maintain proper due diligence records and procedures in order to avoid the use of trusts as instruments for money laundering. The authentication of signatures by Notary Public is required only in the trust instrument.
- The persons involved in handling the trust, including the authorities, must maintain its confidentiality under penalty of up to US$50,000 and a jail sentence of six months.
- Trusts are irrevocable, which can be favorable for tax purposes, unless otherwise specified in the trust deed. The settlor can also maintain, during his lifetime, ample powers such as being able to remove the trustee, changing the jurisdiction of the trust, adding and removing beneficiaries, adding and removing property subject to the terms of the trust, modifying the trust deed, having veto power over the administration by the trustees, etc., without invalidating the trust (as a sham, under most Anglo-Saxon jurisdictions) providing that the trust has a valid object (such as hereditary disposition of the trust property to the beneficiaries).
- Offshore trusts, i.e., those in which the beneficiaries (which in accordance with Panamanian law can include the settlor) do not derive income from a Panamanian source, as defined by the Fiscal Code of Panama, are tax exempt.
- Trust assets are regarded as a separate estate and for all legal purposes these are considered independent from the assets of the trustee, the settlor and the beneficiaries (until they latter receive income derived therefrom). Therefore,

trust assets can not be attached by the creditors of the trustee, the settlor, or the beneficiaries. The Panamanian source income from the trust assets is taxed separately from the personal income of the trustee.

- Trust assets can be of any kind, including future assets (that is, those not existing at the time the trust is created).
- Beneficiaries can be designated by category. Future beneficiaries can also be designated provided that they come into existence during the life of the trust.
- The Trust Deed may indicate that the administration of the trust is subject to a foreign law.
- The trust deed may provide that controversies arising from the interpretation of trust clauses or the administration and/or distribution of the assets, be decided by a foreign court or arbitrators in a foreign country.
- The Law allows the trust situs or assets to be transferred to another country if so authorized by the trust deed.
- The settlor, trustee, or beneficiary may be corporations or other entities, which make handling the trusts much more flexible.

Private Foundations

Private Foundations, regulated in Panama by Law N° 25 of June 12, 1995 and Executive Decree No 417 of August 8, 1995, provide a flexible vehicle for use in asset protection and estate planning.

The following are a few of the salient features of the private foundations:

- Foundations may be formed by one or more natural or juridical persons either personally or through third parties.
- The foundation becomes a legal entity once the foundation charter has been recorded at the Public Registry.
- The foundation charter can be drafted in any language that uses the Latin alphabet.
- Private Foundations are prohibited by law to have a profit oriented goal. Nevertheless, they may engage in commercial transactions, on a non-regular basis, provided all proceeds derived therefrom are used exclusively towards the purposes of the foundation.
- The foundation is irrevocable, unless otherwise provided for in the foundation charter.
- Assets must be endowed for a specific purpose, as stated in the foundation charter or the regulations.
- The foundation charter must contain general information, such as: name, object, initial patrimony, name and address of the Foundation Council members, domicile, duration, Resident Agent, how to appoint the Beneficiaries, etc.
- Members of the foundation council, public servants, or private sector employees, must keep their knowledge of the activities, transactions or operations of the foundation confidential. Infringement of the confidentiality duty could result in penalties of US$50,000 and six months imprisonment.
- The administrative body is the Foundation Council, and its powers can be established by the founder in the foundation charter and the regulations.
- The foundation can be created by means of a public or private document. Even foundations with mortis causa effect can be created by private document without being subject to the formalities of a will.
- For all legal purposes, the assets of the foundation constitute an estate separate from the founder's assets. Therefore, they may not be seized, attached, or subject to any precautionary measures, except for obligations of the foundation itself or legitimate rights of the foundation's beneficiaries. In any case, such assets will not respond for the personal obligations of the founder or the beneficiaries.
- All assets of non-Panamanian sources and the income arising therefrom, are tax exempt.
- The regulations of the foundation, which normally contain an inventory of the assets, management and distribution guidelines, and the names of the beneficiaries, are contained in a private document not subject to being recorded in the Public Registry.
- A foreign foundation may redomiciled in Panama through a Certificate of Continuation. Panamanian foundations may also transfer their situs or assets to another country, if so provided for in the foundation charter or its regulations.

Insurance companies

The Insurance industry in Panama is regulated by Law N° 59 of 1996, and covers all standard insurance risks. Insurance companies that operate in Panama must be licensed by the Superintendency of Insurance and Reinsurance, which is the regulatory and supervising entity.

Insurance companies are subject to annual flat tax rates, depending on the amount of their total assets as of December 31 of each calendar year.

All insurance companies must have an assigned or paid in capital of US$2,000,000.

Reinsurance companies

Law N° 60 of 1996, regulates reinsurance operations in Panama and creates of the National Reinsurance Commission, empowered to oversee the reinsurance industry and to guaranty high professional standards.

Capital requirements. General and International reinsurance companies are required to have an assigned or paid in capital of US$1,000,000.

Reinsurance Administrator companies are required to have a minimum paid in capital of US$500,000.
Reinsurance Broker companies are required to have a minimum paid in capital of US$100,000.

Captive Insurance companies

Captive Insurance companies are regulated in Panama by Law N° 60 of 1996, which requires that to engage in the captive insurance business the company must have an office in Panama dedicated exclusively to the insurance or reinsurance of particular or specific offshore risks.

There are two types of risks:

a) Long-terms Risks. Long-term risks include insurance or reinsurance of individual, collective or group life, including hospitalization, pensions or life annuities.
b) General Risks: General Risks include insurance or reinsurance of all risks not classified as long term risks.

All captive insurance companies engaged in long-terms risks must have a paid-in capital of US$250,000, and those companies engaged in general risks, a paid-in capital of US$150,000.

Under the provisions of Law N° 60, premiums originating from captive insurance activities are exempt from specific insurance taxes, and the profits derived therefrom, from income taxes.

Leasing

Leasing is regulated in Panama by law N° 7 of July 1990 and Executive Decree N° 76 of July 1996. The law defines leasing as: “An agreement between the lessee and the lessor, under which the lessor acquires chattel property under the terms and conditions specifically approved by the lessee, and then executes a lease agreement conferring on the lessee the right to use the chattel by virtue of the payment of rentals for a specified period of time”.

ACCOUNTING AND AUDITING REQUIREMENTS

The following records are required for corporations operating in Panama: General Journal, General Ledger, Minute Book and Stock Register. When a mechanized accounting system is used a specific authorization is required.

Legal accounting records, documents and correspondence must be kept in Panama if the company performs local taxable operations. Such records must be up to date and ready for inspection by the tax authorities. If the company exclusively performs off-shore operations, the legal accounting records, documents and correspondence may be maintained abroad.

There are statutory auditing requirements in Panama for banks, insurance and reinsurance companies, for companies registered with the National Securities Commission and for companies operating in Free Trade Zone, the financial statements of which must be certified annually by independent auditors.

For all companies operating in the Republic of Panama with income in excess of US$50,000 or capital in excess US$100,000, local tax regulations require taxpayers to maintain at the disposition of the Revenue Office, financial statements attested by certified public accountants according to generally accepted auditing standards in Panama.

The International Financial Reporting Standards (IFRS) were approved by the Legislative Assembly in February of 2005 and are compulsory in Panama, although presently temporarily deferred. Certain regulating operations such as in banks have the option to use either International Financial Reporting Standards or US General Accepted Accounting Procedures.

TAXATION

FISCAL YEAR

The tax year is normally the calendar year that begins on January 1 and ends on December 31. However, the tax authorities can approve a different period that may begin in any month of the year and end 12 months later.

Any person, individual, or legal entity liable to pay taxes for himself or on account of others, must file a tax return on or before March 31 each year or 90 days after closing its fiscal period, if it does not coincide with the calendar year. Taxpayers may request the tax authority, prior to the expiration of the term for filing the tax returns, for an extension of up to two months to file their tax return, and must pay the income tax that it estimates will result. The taxpayer must pay the corresponding interest and surcharges, if there is a balance due at the moment of filing the tax return. The return must include an affidavit of income earned during the preceding taxable year, dividends or earnings that were distributed to shareholders or partners, and interests paid to creditors.

Tax returns must be prepared using the statutory forms provided by the income tax authorities. Failure to secure such a form on time, does not release the taxpayer from the obligation to present a return.

Tax returns can be prepared and filed electronically with special software provided by the tax authority or via Internet.

GENERAL STRUCTURE

Basic principles in levying income taxes

The Panamanian Fiscal Code defines a taxpayer as any person or legal entity (corporation or partnership), national or foreign, receiving taxable income. According to the code, any income that is produced from any source within the territory of the Republic of Panama is subject to income tax, regardless of the place where it is received.

Exclusively for income tax purposes, income derived from the following activities is not considered as being produced within Panama:

- Re-invoicing, from an office established in Panama, merchandise that arrives at national ports or airports in transit to another destination. This income is considered as being of foreign source, provided that the transaction is perfected abroad. This merchandise must remain under the official custody of customs authorities, who will ensure that such merchandise is not illegally imported into the fiscal territory of Panama.
- Invoicing merchandise or products for sums exceeding the amount charged to the company located in Panama, as long as the merchandise or products sold are handled exclusively abroad.

- Managing, from an office established in Panama, operations that are formalized, completed, or that take effect abroad.
- Dividends or profit-sharing earnings received from corporations, if they are derived from income not produced within the territory of the Republic of Panama.

CORPORATE TAXATION

Tax rates for corporations

Two systems may be used in the calculation of income tax:

1. Net taxable income at 30%;(traditional method) or
2. The net taxable income resulting from deducting 95.33% of the total taxable income and applying the 30% rate to the result (30%x4.67 of net taxable income) (method for Alternative Calculation of income tax (ACIT).

Whichever amount is greater shall be the income tax to be paid with the sworn and estimated tax return.

Loss carry forward

Net operating losses for a given fiscal year can be carried forward to each of the next five taxable years, deducting a maximum of 20% of the loss per year. The deduction cannot reduce the net taxable income for that year, by more than 50%. Portions not deducted in the corresponding year cannot be carried forward to subsequent years, nor shall they be subject to refund. Any compensation received for the losses (i.e. from insurance), must be deducted from the loss originally declared, and the taxpayer must present a corrected tax return to make the necessary adjustments. The right to carry over is non-transferable among taxpayers, even in cases of acquisitions and mergers.

Deductible Expenses

Deductible expenses are disbursements incurred in the production of taxable income or in the maintenance of its source. The expenses incurred must be related to Panamanian income sources. Consequently, expenses incurred to produce foreign source or tax exempt income, are non-deductible. If the proportion that actually corresponds to each kind of income cannot be determined, the expenses incurred to obtain both taxable and nontaxable income, must be allocated in proportion to the ratio of taxable and nontaxable income.

All expenses or disbursements must be supported by proper documentation in order to be deductible.

Deductibility of expenses originated between a corporation and its subsidiaries and affiliates or its directors, officers, executives and shareholders or their relatives within the fourth degree, and in-laws within the second degree, are restricted when both parties do not use the same accounting system, being then only deductible in the taxable year in which they are actually paid.

Capital gains on sale of bonds, stocks, participations quotas and other securities

The sale of bonds, stocks, participation quotas, and other securities and chattels of corporations will be taxed as follows:

Profit from the sale of such negotiable documents and personal property shall be subject to income tax, at a final rate of 10%. There is an option to pay only 5% of income tax.

The exemption over the profit or deductibility of losses incurred in the purchase of bonds, stock and other securities in a public bid is abolished.

SPECIAL TAX RATES AND REGULATIONS

Branches of foreign corporations

For tax purposes, branches of foreign corporations established in the Republic of Panama must keep their accounting records for Panamanian operations, separate from the records of the head office or other branches. Foreign corporation branches must withhold 10% of their total net income after taxes as dividend tax. This withholding is paid along with the annual income tax return. Other than this, there are no special rules for taxing branches of foreign corporations, and all general rules apply to them.

Artistic groups, musicians, athletes and other professionals

The total revenue received by artistic groups, musicians, singers, athletes, and other professionals coming to the country is taxed at a 15% rate, plus national education contribution at 2.75% rate.

Foreigners, who remain in Panama for 180 days or more in a fiscal year, either in a continuous or alternate form, are considered as residents for income tax purposes, independent from their immigration status are subject to the payment of income taxes.

Interests, commissions and other charges on foreign financing

Interests, commissions, and other financial charges credited or remitted abroad shall pay income taxes at a 30 percent rate over 50% of the total amount remitted, which will be withheld from the total amount paid to the foreign creditor by the natural person or legal entity which makes the payment.

Free Zones companies

Companies operating in the Free Zone must keep separate accounting systems to carry on their local and foreign operations. Foreign operations are defined as those where the sale is made to an international market from the Free Zone. Local operations are those in which the sale's final destination is the Republic of Panama, including ships transiting the Panama Canal and the passengers in transit using the Panama international airports. Income derived from local sales is not subject to any special treatment; however, gains derived from operations abroad are income tax exempt.

PERSONAL TAXATION

Taxable income for individuals is determined by the same general rules applicable to corporations.

Tax rates for individuals

The table for natural persons in Article 700 of the Fiscal Code as amended, are established in:

Taxable income	Tax will be
Up to US$9,000	0 tax
US$9,000 to US$10,000	73% over the excess of US$9,000 up to US$10,000.
US$10,000 to US$15,000	US$730 for the first US$10,000 and 16.5% over the excess up to US$15,000.
US$15,000 to US$20,000	US$1,555 for the first US$15,000 and 19% over the excess up to US$20,000.
US$20,000 to US$30,000	US$2,505 for the first US$20,000 and 22% over the excess up to US$30,000.
Over US$30,000	US$4,705 for the first US$30,000 and 27% over the excess

The first US$9,000 of net taxable income is exempt from income taxes. Incomes of over US$9,000 are taxed at progressive rates on the total net income.

Deductions

Taxpayers are entitled to the following deductions from their taxable income:

- Each single person, US$800 annually.
- Each married couple filing jointly, US$1,600 annually.
- US$250 for each of the taxpayer's dependents, as legally defined.
- All medical expenses incurred in Panama if duly substantiated, such as insurance premiums and the sums paid for hospital and medical expenses not covered by insurance.
- Interest paid on mortgage loans for acquiring, constructing, or improving the principal dwelling of the taxpayer in the Republic of Panama, up to a maximum of US$15,000 per year.
- Interest on loans for the education of the taxpayer or his dependents within the Republic of Panama, or on loans granted by the Instituto para la Formación y Aprovechamiento de los Recursos Humanos (IFARHU).
- Educational taxes paid or withheld.
- Donations to approved institutions up to a maximum of US$50,000 per year.
- Dues paid to nonprofit organizations, associations, or societies.

Non deductible expenses

The following items are not considered expenses or disbursements incurred in the production or source of income and therefore are non deductible:

- The taxpayer personal expenses and those of his dependents.
- Expenses incurred in construction projects or leasehold improvements to increase the value of any personal property or real estate, whenever such construction projects or leasehold are subject to depreciation or amortization.
- Previous year expenses.
- Amounts paid on account of vacation trips, parties, entertainment, and donations (except advertising ads).
- Expenses incurred by local motion picture distribution companies in relation with the motion picture production companies.
- Any other expenses that, even though their deductibility cannot be substantiated satisfactorily when requested by the Directorate General of Revenues.

Non residents working temporarily in Panama

Non residents staying and working in Panama for 180 days or more within a fiscal year, continuously or alternate, for income tax purposes are considered residents, regardless of their migratory condition and are subject to the income tax payment.

If the person stays less than 180 days within the calendar year, a fixed tax charge of 15% would be applied, plus the national education contribution at 2.75%.

Foreign personnel with special temporary visitor's visa

According to Article 5 of Law Decree No. 143 of November 1, 2005, it is not taxable in Panama the income produced by foreigners having a special temporary visitor's visa, provided that:

a. They are hired by Panamanian companies and reside in Panama to perform these operations.
b. Receive remunerations directly from their head office domiciled abroad.

Remittances abroad. A 30% tax is levied over 50% of any amounts sent to natural or juridical persons located abroad, for services and acts in benefit of natural or juridical persons established in the national territory.

For financing or loan interest or fees to creditor's abroad withholdings shall apply over 50% of the remittance. The 6% withholding tax over remittances of interest is abolished for financing obtained after February 3, 2005.
Exceptions. Excluded from this are natural or juridical persons that by the nature of their international business operate outside the national territory and that are required to pay tax for income generated and declared in the Republic of Panama, as well as that portion of expenses that head offices allocate to their affiliates or subsidiaries in Panama.

Dividend Withholdings. Every company that distributes taxable dividends, must withhold and pay the taxes to the National Treasury, within ten days following the withholding thereof. The dividend tax is 10% for distributions to shareholders owning nominative stock and 20% for distributions to shareholders owing stock issued in bearer form.

Withholding Taxes for Non residents. Every company remitting payments or credits for the account of persons or companies abroad must withhold, at the time of paying or crediting such sums, the corresponding taxes.

To estimate withholdings, all remittances previously made during the same year must be considered in a cumulative manner within the fiscal year.

Withholdings calculations are based on the following:

- Fifty percent (50%) of remittances, commissions, and other financing facilities at a rate of 30%.
- Fifty percent (50%) of remittances of professional services at a rate of 30%.
- Fifty percent (50%) of remittances of rent, royalties, annuities, and other cases not provided by law or regulations at a rate of 30%.
- Total of remittances over international transport based on the kilometers or miles within the Panamanian jurisdiction at a rate of 3%.
- Total of sums paid or credited to foreign motion picture producers at a rate of 6%.
- Total of sums paid to musician and artistic groups, athletes and other professionals coming into the country at a rate of 15%.

To calculate the withholdings, all above remittances made during the same year should be considered cumulative during the fiscal year.

OTHER TAXES

Withholding taxes

If a withholding agent does not withhold taxes or does not remit the amounts withheld to the National Treasury, it cannot claim as deductible the payments that generated the obligation to withhold, except if the payment is made during the same fiscal period.

Sales taxes

All transactions involving the transfer of tangible personal property (commodities and products) in the Republic of Panama are subject to sales tax(I.T.B.M.S.). Such transactions include: (1) the sale or contract implying the exchange of ownership; (2) importation of tangible goods or merchandise used for the transformation, improvement, or production of other goods; (3) services involving the transformation of raw materials into finished or semi-finished goods; and (4) leasing of tangible property.

Sellers, including state-owned industrial and commercial enterprises, are responsible for the collection and payment of this tax, which must be paid either monthly or quarterly, depending on the gross monthly income of the seller. Penalties, as well as interest, are assessed for late payments.

Sales are taxed at a rate of 5% of the value of the sale of the personal property or commodities, except for the import, wholesale, and retail sale of alcoholic beverages, for which the tax rate is 10% and cigarettes, for which the tax rate is 15%.

Exemptions from the sales tax are available and include (1) the import and transfer of food and medical and pharmaceutical products; and (2) the export or re-export of goods.

For all practical purposes, the sales tax works as a Value Added Tax (VAT), applicable to every transfer of a product, until it reaches its final destination. The tax base is the price of the product, including the value of any accessory service, furnished along with the merchandise, such as transportation, freight, and interests for financing. However, the seller will deduct from the tax received, the sales tax previously paid by him, remitting to the National Treasury only that portion of the tax sum that corresponds to the value added to the product. This sales tax may be considered a tax levied on consumption, since it is the consumer who finally assumes its total impact.

Business tax

All individuals or firms engaging in commercial or manufacturing activities (except for those operating in the Colon Free Zone), are required to have a business license and pay an annual tax, based on the total owner equity or net worth of the firm. The tax, known as License tax, is equivalent to two percent of the total capital and retained earnings, as shown on the latest balance sheet submitted to the tax authorities, and ranges from a minimum tax of US$100, up to a maximum of US$40,000.

Real estate taxes

All land and real estate improvements thereon located in Panama, are subject to real estate taxes. Real estate is appraised by a Department of the Ministry of Economy and Finance. The taxable base depends on the total value of the land, plus all improvements. Real estate transactions, at prices above the appraisal value, automatically increase the value of such properties for tax purposes. Certain properties and improvements thereon, are exempt or can obtain exemption from real estate taxes, according to special incentive tax laws. Real estate with assessed values of less than US$30,000 is exempt from taxes. For collection purposes, real estate taxes create a lien which has priority over all other encumbrances on the property. Taxes can be paid in three installments, with the following due dates: April 30, August 31, and December 31. A tax clearance certificate must be obtained, before any real estate transaction can be completed. Tax rates are progressive as follows:

Taxable Income			
From Column 1 (US$)	**To Column 2 (US$)**	**Tax on Column 1 (US$)**	**% over excess Column 1 (percent)**
0	30,000	0	0
30,000	50,000	350.00	1.75
50,000	75,000	487.50	1.95
75,000	and up	837.50	2.10

An alternate combined progressive rate of the real estate tax is established.

The tax rate decreases according to the following progressive table:

a. 0.70% over the excess of $30,000 up to $50,000
b. 0.90% over the excess of $50,000 up to $75,000
c. 1% over the excess of $75,000

Requirements to apply the new rate:

a. File a sworn statement with an estimated value of the property duly signed by the property appraiser. The General Land Register Office may accept or reject this value. The registered value may not be changed at the General Land Register Office for the following five (5) years.
b. Be up to date in the payment of this tax.

December 31, 2007 is the new due date to apply the alternate combined progressive rate.

Tax on the transfer of real estate

A two percent (2%) transfer tax over the transfer of real estate is established, whether through purchase, barter, donation, payment or any other agreement for the transfer of title over real estate.

The taxable base of this tax shall be the greater of the following values, namely:

- The value fixed in the transfer deed;
- The recorded value of the property on the date the transferee acquires it, plus the value of improvements made, if any, plus an amount equal to five percent (5%) of the said recorded value and the improvements for each calendar year.

Capital gain on the transfer of real estate

For the purpose of computing the income tax in cases where there is a gain over the transfer of real estate, the taxable income shall be the difference between the real value of the transfer and the amount of the property's basic cost, the amount of improvements made and expenses necessary to execute the transaction.

The applicable tax rate to the gain shall be ten percent (10%) payable before registration of the relevant public deed at the Public Registry of Panama.

If the purchase and sale of real estate is part of a taxpayer's ordinary business then the tax to be paid shall be calculated on the basis of the rates established in articles 699 or 700 of the Fiscal Code.

Stamp duty

Commercial papers and documents, such as contracts, bills, notes, and checks, must have fiscal stamps attached to or their equivalent.

The amount of stamps or equivalent depends on the value of the document, and on whether the document is a check, receipt, negotiable instrument, landing permit, bill of lading, or any other. Contracts and bills must be stamped at a rate of 10 cents for each US$100.00 of the value stated in the document. Stamps range in value from US$0.01 to US$20.00. Stamps can be purchased as stamps or imprinted on the document by means of a postal meter. Taxpayers can also pay this tax every month, trimester, or semester by filling out a form and submitting it together with the payment to the tax authority.

Import duties

All imports are subject to import duties, unless specifically excluded by Law. Import duties must be paid within three working days, from the day the import documents are presented to the custom authorities. Rates vary according to the local availability of items, and to the type of goods.

Export duties

Exports are not subject to taxes, except for the following: (I) silver, gold and platinum; (2) iron, copper, bronze and metal scraps; (3) natural resources; (4) raw sugar. The export of products subject to the payment of export taxes requires an Export License, which is issued by the Ministry of Commerce and Industries.

Municipal taxes

Most commercial and industrial activities are subject to municipal taxes. Taxes range from US$20 to US$1000 per month, depending on the activity and the amount of sales of the business. The town council of Panama city has its own clearance certificate. It costs US$1, and is required for the following purposes:

- Entering into contracts with the local government.
- Obtaining a new automobile license plate each year.
- Receiving a license or permit to operate profit-oriented businesses within the city.

Other taxes

There are other taxes and rights among others, as follows: (a) tax on hotel invoices; (b) non governmental games of chance taxes; and (c) airfare taxes.

Certificate

An income tax clearance certificate indicates that the taxpayer has paid all income tax obligations to the government and it is required for the following operations:

- For payments made by the National and Municipal Treasuries and other public treasuries, except those corresponding to wages, salaries and/or remunerations for working services.
- To obtain commercial vehicle license plates.
- For selling of airplane tickets and exit permit to travel abroad to persons residing within national territory, except:
  a. Diplomats and consuls accredited in the Republic of Panama. Diplomats only need to show their passports endorsed by national authorities. The consuls must accredit the exemption through a certificate issued by the Ministry of Foreign Affairs.
  b. Children under eighteen (18) years old;
  c. Students with visa or student passports;
  d. Panamanians and foreigners with permanent resident in the national territory;
  e. Foreigners with tourist visa in force.

MOORE STEPHENS IN PANAMA

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