



Panama

Introduction

All individuals in Panama, including citizens, residents, and nonresidents, are taxed only on Panamanian-source 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. Nonresidents are subject to tax levied at a flat rate.

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Key messages

Extended business travelers are likely to be taxed on employment income relating to their Panamanian workdays.

Income tax

Liability for income tax

A person's total tax liability to Panamanian tax is determined by residence status; residency status determines the tax rates applied to Panama-sourced income. A person can be a resident or a nonresident for Panamanian tax purposes. A resident for tax purposes is any person who stays more than 183 days in Panama in any calendar year. A nonresident of Panama is generally someone who spends less than 183 days in Panama in any calendar year. Extended business travelers are likely to be considered nonresidents of Panama for tax purposes unless they enter Panama with the intention to remain in Panama for more than 183 days.

Definition of source

Employment income is generally treated as Panamanian-sourced compensation where the individual performs the services while physically located in Panama.

Tax trigger points

Technically, there is no threshold/minimum number of days that exempts the employee from the requirements to file and pay tax in Panama.

Income may be excluded from taxation if it is attributable to services performed in countries other than the assignment location if these services are not economically related with the taxable activities that the employee performs within national territory.

Types of taxable income

For extended business travelers, the types of income that are generally taxed are employment and Panamanian-sourced income and gains from taxable Panamanian assets (such as real estate).

Tax rates

From 2010, resident individuals' net taxable income is taxed at graduated rates ranging from zero percent to 25 percent. The maximum tax rate is applied to income earned over 50,000 Panamanian balboa (PAB). Nonresidents are subject to tax at a flat rate of 15 percent.

Social security

Liability for social security

Social security covers workers' compensation, illness, injury, and maternity leave in addition to old age pension. Salary is subject to contributions of 9 percent for employees and 12 percent for employers. These rates will increase in 2013 and are expected to be 9.75 percent for employees and 12.25 percent for employers.

A professional risk premium is also payable by employers based on workers' compensation. Rates range from 0.98 percent to 7 percent, depending upon the applicable risk classification. Educational tax is 2.75 percent of taxable compensation (1.50 percent for employers and 1.25 percent for employees).

The employer and employee rates are summarized as follows:

Type of insurance	Paid by		Total percent
	Employer percent	Employee percent	
Social security (2012)	12	9	21
Total percent	12	9	21

Panama has entered into a formal social security totalization agreement with the 20 other Iberoamerican Organization countries to prevent double taxation and allow cooperation between Panama and overseas tax authorities in enforcing their respective tax laws.

Compliance obligations

Employee compliance obligations

Tax returns are due by March 15 following the tax year-end, which is December 31. An extension to file may be granted for two months, but extensions to pay the tax are not granted. Individuals with employment income from only one source are not required to file a tax return if their income tax liability is satisfied through withholding.

Individuals required to file a tax return must, at the time of filing a return, declare estimated income for the next year and pay an estimated tax based on the difference between withholdings and estimated tax payable.

Estimated tax payable must be paid in three installments, which are due June 30, September 30, and December 31.

Employer reporting and withholding requirements

Withholdings from employment income are covered under the Pay-As-You-Go (PAYG) system. If an individual is taxable on employment income, the employer has a PAYG withholding requirement.

Other

Work permit/visa requirements

If an individual is a nonresident, that individual will need to comply with the entry clearance formalities applicable to nationals of that individual's particular country before coming to Panama. Requirements generally involve obtaining a visa and a work permit for those who come to Panama for employment purposes.

Immigration procedures will also need to be complied with for dependants accompanying the individual to Panama or who will be joining later.

If an individual is a national, the individual is not subject to the entry clearance requirements mentioned above, although the individual will need to bring a passport to establish identity and nationality satisfactorily. In some cases, other documents may be acceptable for this purpose (such as a national identity card), but the exact requirements should be checked before traveling.

Double taxation treaties

The Republic of Panama has signed double taxation agreements with the following countries: Italy, Mexico, Barbados, Spain, The Netherlands, South Korea, France, Qatar, Luxembourg, Portugal, Singapore, and Ireland. Only the treaty with Mexico is currently in force.

Permanent establishment implications

There is the potential that a permanent establishment could be created as a result of extended business travel, but this would depend on the type of services performed and the level of authority the employee has.

Indirect taxes

The standard tax rate of value-added tax (VAT) since June 1, 2010 is seven percent of the amount of the professional fees or of the value of the transfer of the personal property or commodities except for the import, wholesale, and retail sale of alcoholic beverages, for which the tax rate is 10 percent; accommodation and lodging services in all public modes, for which the tax rate is 10 percent; and for the import, wholesale, and retail of all kinds of cigarettes and cigars, for which the tax rate is 15 percent of the taxable base.

VAT in Panama is a tax on the transfer of tangible goods and rendering of services called ITBMS (*Impuesto a la Transferencia de Bienes Corporales Muebles y Prestación de Servicios*). In general, all transactions involving the transfer or transmission of tangible personal property (commodities and products) and the rendering of services within the Republic of Panama are subject to this value-added-type tax.

Supplies that are liable to VAT include the following transactions:

- The sale or contract implying the exchange of ownership
- The personal use of corporate or noncorporate property by the owner, partners, directors, legal representatives, board of directors, or shareholders
- The promise of a sale (contract) on goods to be transferred physically
- Transfers of goods to owners, partners, or shareholders as a result of the definitive closure of an enterprise
- Rendering of services, such as:
 - Works with or without the delivery of materials
 - Intermediation in general
 - Personal use by the owner, partners, directors, legal representatives, board members, or shareholders of the enterprise of the services rendered by it

- The rental of real estate and tangible property or any other convention or act that implies or is intended to give the use or enjoyment of the property
- Importation of tangible goods or merchandise used either for personal consumption, charity, educational, scientific, or commercial purposes or for the transformation, improvement, or production of other goods.

All individuals or legal entities that provide professional services, sell, and/or import goods, including state-owned industrial and commercial enterprises, are required to register when their monthly gross income exceeds 3,000 US dollars (USD) or USD36,000 per year.

Only individuals and legal entities registered as taxpayers (or taxable persons for VAT purposes) operating domestically within Panamanian boundaries may be registered in the Panamanian's Taxpayers Registry (*Registro Único de Contribuyentes*). Such a registration involves the identification of the relevant taxable person with an identification number valid for all tax purposes (including invoicing, filing of tax returns, and other reports to the tax administration).

The aforementioned registry includes not only VAT taxable persons, but all other types of taxpayers and/or taxable persons subject to Panamanian tax laws (including income tax, excise taxes, VAT, and others).

Transfer pricing

Through a recent tax reform, Panama adopted a transfer pricing regime. It basically indicates that all operations performed by taxpayers with related parts must be valued under the arm's-length principle. This means that all the ordinary and extraordinary income, as well as the costs and necessary expenses to perform operations, should be determined according to the agreed price or amount by (1) independent parties, (2) similar circumstances, and (3) arm's length.

Local data privacy requirements

Panama has a variety of strict data privacy laws, including those aimed at banking and e-commerce.

Exchange control

There is a reporting obligation regarding the movement of funds into Panama of USD10,000 as a minimum.

Nondeductible costs for assignees

Nondeductible costs for assignees include contributions by an employer to non-Panamanian pension funds.

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