

# **Panama**

## Your Gateway to Latin America

**Compiled by:**

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### **INTRODUCTION**

Panama is the key logistics hub of the Americas: it is best suited as a base to serve the region. It offers a favorable taxation system, a stable banking system and high economic stability, without the typical fluctuations of emerging markets: its currency is pegged to the USD (no Central Bank and exchange rate adjustments); 2/3 of Panama's GDP is generated by the service sector, so the economy is barely exposed to commodity fluctuations.

Panama also offers good quality of life for expats: high level of personal security, affordable housing and tropical weather and landscaping, among others.

It has the highest level of political stability and security in Latin America: there are no socialist, leftist parties. Social peace is also kept up via a generous subsidy policy.

The country has the «Panama Savings Fund» (FAP): a long-term government wealth fund, available to be used to stabilize extreme situations, such as natural or economic disasters (like the Covid-19 crisis).

Panama is in constant infrastructure development and offers many free zones, ideal for logistics and storage of merchandise.

### **STRENGTHS OF THE MARKET**

- Panama uses the US dollar and there are no foreign exchange controls
- 100% foreign ownership is allowed
- No restrictions on the transfer and repatriation of capital and profits
- Legislation guaranteeing juridical security, fiscal and tax incentives for investors
- Panama hasn't experienced major difficulties as a result of the downturn and there have been no bailouts
- Economic stability, with record low inflation and sustained economic growth
- Strategically located on the major world shipping route provided by the Panama Canal

- A hub for air travel across the american continent, through Tocumen Airport
- One of the best countries for telecommunications connectivity in the world
- Low unemployment at only 4.1%

## **SECTORS FOR SWISS COMPANIES**

- Infrastructure development: roads, bridges, metro, tunnels, urban transport, railway across the country.
- Besides logistics and banking related services, there are other growing sectors generating demand: Tourism, with 1.8M visitors in 2019, approx 40% less than Costa Rica.  
Commodities: oil & gas, mining of copper mainly.  
Relocation of multinational corporations with specific incentive programs.

## **PANAMA'S CONSUMERS**

- The country has 4 million inhabitants, with spanish as primary language, followed by english.
- The top earning 10% in Panama possess more than 40% of the nation's wealth, while the poorest 10% share only 1.1% of the total national earnings. This shows a huge discrepancy between the have and have-nots segments of Panama's society.
- Consumption trends: Panamanians are consuming more eggs as a replacement to beef. From 2005 to 2015 there was a 57% increase in egg production driven by this rising demand.
- Fish consumption in Panama is 23 kilos per capita, a figure above the world's average rate. This trend is driven by a boost in purchasing power and a wider choice of seafood available in the country.
- Since 2014, there also has been a change in dietary choices of Panamanian consumers, with a larger number opting for low calorie, gluten-free, and healthier products.
- With an urbanisation rate of 2.23% annual increase, today Panama's urban population is 68% of the total population. This urbanisation process has boosted the renovation, construction and developmental sectors of Panama with hotels, offices, plants and residential establishments sprouting up in Panama City at a rapid rate.

## **MAIN IMPORT PRODUCTS**

- Fuels
- Machinery
- Vehicles
- Iron and Steel rods
- Pharmaceuticals

## **TOP IMPORT PARTNERS**

- US (18.8%)
- China (20.8%)
- Japan (15.9%)

## **PRIME CARGO AIRPORTS**

- Tocumen International Airport
- Aeropuerto Internacional Panama Pacifico (BLB)
- Albrook Gelabert Airport

## **PRIME CONTAINER PORTS**

- Colon Container Terminal
- Balboa Port
- Manzanillo International Terminal (MIT)

## **IMPORT REGULATIONS**

- The import process in Panama is efficient and smooth. A government registered customs broker will assist you to clear the products through the customs process.
- Panama does not require import licences. A commercial or industrial license is sufficient to import most goods into the country and engage in commercial activities.
- For non-food agricultural items, Phytosanitary permits are required while arms, ammunition, fertilisers and certain foods are the ones that require special import permission, which can be obtained from the Ministry of Security.

## **IMPORT DOCUMENTATION**

- Import declaration
- Commercial invoice
- Airway bill
- Bill of lading
- Commercial licence number
- Phytosanitary certificate (where applicable)
- Certificate of free sale (if required)
- Certificate of origin

## **PROHIBITED PRODUCTS**

- Counterfeit coins or printed material that imitates currencies
- Equipment or instruments for manufacturing coins
- Liquors, wines, beers, or medicines with labels that falsely describe contents, or of any kind of harmful preparation
- Certain firearms and war materials
- Foreign lottery or raffle tickets
- Opium in the form of gum or for smoking
- Obscene brochures, books, newspapers, magazines, or postcards containing negative portrayals of the country's culture, civilisation or dignity
- Plants, seeds, or animals (determined by the of Agriculture)

## **FREE TRADE AGREEMENTS**

- Panama's main free trade agreements are with the US, Canada, the European Union (EU) and the European Free Trade Association (Switzerland, Iceland, Liechtenstein and Norway) with North America being its top trade destination. The EU is Panama's second largest trade partner.
- The Trade Promotion Agreement (TPA) between the United States and Panama in 2012 dropped Panama's import duties to nil for 87% of product categories being imported into the country. Exceptions to this zero duty rule include certain food and agricultural products, which they are predicting will also be phased out over the coming years.

- These FTA's cover areas of financial services, government procurement, trade of goods and services, investment, protection of intellectual property among others.

## THE DISTRIBUTION SET-UP

- In Panama, direct importers can act as the wholesalers or retailers for the distribution and sale of their products.
- Specific industries such as consumer goods, and food and medicine are sold through the retail mechanism.
- For industrial products, the process is implemented via local agents, distributors, or then directly ordered from the manufacturer. The area of retail or shopping facilities in Panama requires major development, however, to keep up with the world.
- The Panama Canal reconstruction and expansion project was completed in June 2016. This is predicted to boost Panama's trade operations even further.

## TAXATION SYSTEM

- Corporate income taxes of the Panamanian company:  
If you are not doing any business in Panama: 0%  
For Panama sourced income: 25% (of profit).
- ITBMS (VAT):  
For services not related to Panama: 0%.  
For Panama sourced income: 7% (once you surpass the revenue threshold of USD 36K p.a.).
- Municipality Tax: depending on the location of the office, the activity and the size of the business, to start around USD 500 per year (paid monthly).
- Tax on dividends:  
Offshore income only: 5%, of which 2% is paid on the net earnings in the year the profits are declared.  
For Panama sourced income: 10%, of which 4% is paid on the net earnings in the year the profits are declared.  
However, there are other options for you to get money from this company avoiding taxes on dividends (commissions, "salaries", loans, etc.).
- Personal income taxes as a resident in Panama:  
If you do not actively seek tax residence or if you do not spend more than 183 days in Panama (your case): 0%  
Otherwise as a tax resident, it would be:  
For receiving dividends from the Panamanian company: 0%  
In concept of "salary" 0% up to USD 11K per year gross, 15% between USD 11- 50K per year gross, 25% over USD 50K per year gross.  
Possible to arrange special deals for expats (not all income taxed locally, international pension fund)  
Wealth taxes / inheritance taxes both at personal and corporate level: 0%

## CHALLENGES

- **Bureaucracy processes for business can be extensive** if you're not familiar with local legislation and institutions. It is strongly suggested to spend time in the country before incorporating a business in order to build commercial relationships. In addition, working with a commercial associate can help you to understand the business culture and assist you with the process.
- **Language barrier:** non-Spanish speakers might have difficulties communicating, so learning

the basics of the language and / or working with a multilingual business partner can help you to enter the market and make connections with local suppliers, distributors, and partners. Furthermore, it helps you to build commercial relationships with local merchants that may not understand your language.

- **Understanding the local taxation system:** Panama has a territorial tax system. This means that the country only taxes the income that is generated within its national borders. For companies and investors based in Panama, this means that foreign income is only taxable in the other country. If a business establishes an administrative office in Panama to invoice foreign clients for goods and/or services provided outside of the national borders, the income received is exempted from tax in terms of the territorial taxation system.  
Another way to take advantage of the tax benefits in Panama is the establishment of business within one of the country's economic free zones. However, businesses must take note of the strongest sectors in Panama. One of them is the import and export activities due to the Panama Canal and other facilities. Investigating additional information about free trade agreements and zones in Panama can be gratifying for business expansion in Panama. To overcome this hurdle of taxation, it's recommendable to seek professional support from local accountants with vast experience.
- **Finding and recruiting qualified personnel:** investors planning to enter the Panamanian market need to be familiar with the local recruitment processes. Therefore, understanding labour laws are crucial to avoid sanctions or potential problems with the local authorities. Taking advantage of local PEO organizations which have experience and knowledge of the labour laws in Panama is not only a time-saving factor but also contributes significantly to the company's success.
- **Panama's business culture:** In Panama, it is important to build personal relationships with local company owners and employees as part of the business culture. Developing solid and longstanding relationships will help you to develop your business faster and more successfully. Thus, spending time with locals and connecting with them is essential in order to establish a company in Panama. Attending business events is one of many options to build a network in the country. You can overcome challenges to do business in Panama by hiring a local legal provider.

## REFERENCES

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