

Frequently asked questions: Corporate Tax - Panama

Panama is known for its financial and regulatory tax framework, which mandates that companies must maintain transparent and accurate accounting records. All entities, including those generating income from outside Panama (Offshore), are required to keep detailed records that comply with International Financial Reporting Standards (IFRS). This includes preparing certified financial statements and ensuring proper documentation of all transactions.

1. Foreign-sourced income (in particular, income from sales to private individuals or businesses that are based outside of Panama) is exempt from corporation tax in Panama? Yes, that is correct. Income generated outside of Panama is exempt from corporation tax in Panama, if it is not connected to activities within the country. If the company generates income from activities within Panama, that portion will be subject to the domestic tax rate of 25%. **Example:** If a company sells services to clients in the United States, that income will be exempt from tax in Panama. However, if it sells to a client in Panama, that income will be subject to corporation tax.

2. If so, is it a requirement that 100% of the income be sourced from outside of Panama? For example, if 1% of the entity's income is from within Panama, does the 99% of income remain exempt? Or does corporation tax then apply to all income at the domestic rate (25%)? No, if the company has income from within Panama, that portion will be subject to corporation tax. The remaining 99% of income from outside Panama will still be exempt from tax, but the portion sourced within Panama will be taxed. **Example:** If a company has total income of:100,000, and:1,000 comes from Panama, that:1,000 will be subject to the 25% tax, while the remaining: 99,000 will be exempt.

3. What documentation or proof must be provided to support the 0% tax rate on foreign-sourced income?

General case (retail/standard services): to ensure the exemption, invoices must be generated with the minimum information required by tax law. These should include clear information about the client (name, address, and tax ID), along with a detailed description of the goods or services sold.

Specific case (market-making / protocol-based services): in the case of financial services conducted through decentralized platforms or protocols (e.g., market making, DeFi interactions), it's important to maintain detailed logs and records of the counterparties and jurisdictions involved (exportable records, transaction logs, etc.)

Panama's tax authorities may evaluate the *economic source* of income based on where the benefit is received or the service is executed.

4. What withholding taxes (if any) are due on distributable profits paid to overseas shareholders? Foreign shareholders receiving dividends from offshore activities are not subject to withholding tax, as the income was generated outside of Panama. However, if a foreign shareholder holds shares in a company that generates income within Panama, the 10% withholding tax does apply.

5. What (if there are any) additional tax considerations must we make for the transaction as described above? In Panama, companies may be subject to the following taxes: **complementary Tax** and **commercial License Tax** (also known as tasa de aviso de operación). However, **foreign-sourced income is not subject to Panamanian corporate income tax** and **does not trigger the complementary tax** or other income-based local obligations. Only the portion of income directly connected to activities carried out in Panama would be taxable.

6. Is it possible to recognize expenses that may not directly belong to the company? By law, all expenses to be recognized in a company's financial records must be properly documented and issued under the company's name. However, there are ways to address expenses that were incurred for the company's benefit but not directly under its name, such as: reimbursements, cost allocation agreements.

It's important to note that only properly documented expenses can be used for tax deductions and compliance purposes. Recognizing expenses without adequate support can lead to issues with regulatory authorities.

7. Transfer Pricing (TP)

In accordance with Article 762-I of the Panamanian Tax Code, Panamanian companies that engage in transactions with related parties abroad must prepare a Transfer Pricing Study. This study must demonstrate that the terms and conditions of such transactions are at *arm's length*—meaning they reflect the pricing that would have been agreed between unrelated parties operating under comparable market conditions.

This requirement applies regardless of whether the related party is in a low-tax jurisdiction. Failure to comply may result in penalties or adjustments by the tax authority.