



GLOBAL  
EMPLOYER  
GUIDE

**PANAMA**





## Basic Country Facts

### Full name

- Republic of Panama

### Capital

- Panama City

### Main Languages

- Spanish
- English

### Population

- 4.177 million

### Monetary unit

- United States Dollar

### Internet domain

- .pa

### International dialing code

- +507

### Currency

- United States Dollar



# STATUTORY LABOR REQUIREMENTS

## Probation Period

- The parties can agree in the contract a probationary period up to the term of three months.

## Annual Leave

- The statutory paid vacation is 30 days.
- However, you would only be entitled to 30 days of vacation after 11 continuous months of employment.

## Public Holidays

- New Year's Day (1st January)
- Martyrs' Day (9th January)
- Shrove Tuesday (25th February)
- Good Friday (10th April)
- Labor Day (1st May)
- Separation Day (3rd November)
- Flag Day in Panama (4th November)
- Colon Day in Panama (5th November)
- Los Santos Uprising Day (10th November)
- Independence Day of Panama (28th November)
- Mother's Day (8th December)
- Christmas Day (25th December)

## Maternity Leave

- Total maternity leave must be at least 14 weeks' duration.
- If childbirth is delayed, the employee is entitled, after the birth, to paid leave for the following eight weeks.

## Paternity Leave

- Fathers are eligible to 3 days of paid paternity leave



## Sick Leave

- Employees enjoy 18 paid days leave for injury or illness.

## Work Hours

- The standard workday is eight hours, with the standard workweek up to 48 hours.
- Night work (work shifts between 6 pm and 6 am) is limited to seven hours per day and 42 hours per week.
- A mixed-shift workweek is seven and a half hours, up to 45 hours per week.

## Overtime

- The rate of overtime pay depends on whether it is during the standard workday (25% above the pay rate) or at night (50% above the pay rate).
- In the circumstances where overtime is permitted, it cannot exceed three hours per day or nine hours per week.

## Notice Period

- Generally, there are no statutory notice periods to be observed.
- However, there is an exception for some specific categories of workers to which the "just cause" rule does not apply.
- Those workers can be dismissed without just cause provided that the employer gives 30 days' prior notice or pay the corresponding amount in addition to a payment amounting to compensation for unfair dismissal.

- This rule applies to those workers with less than two years' uninterrupted service; domestic employees; permanent employees of small agricultural, fishing or manufacturing undertakings; seafarers serving on board vessels operating on international routes; apprentices; workers in retail sales establishments and in undertakings with five or fewer workers, except in the case of insurance establishments or real estate (art. 212 LC).
- The employee can put an end to the employment relationship without supporting reasons through a written notification with 15 days' notice.

## Severance

- Severance pay is counted at the rate of one week's wages for each year the employee has worked for the company.
- The employee also receives vacation payment which is 30 days for each 11 consecutive months worked.

## 13th Month

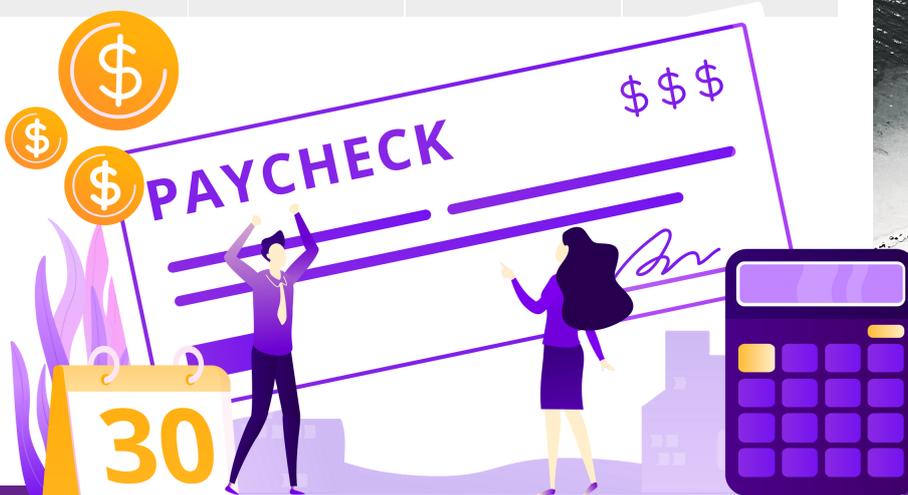
- 13th month pay is mandatory
- It is paid in 3 equal parts: -
  - 15th April
  - 15th August
  - 15th December



## Income Tax

- Resident and nonresident individuals are taxed on their Panamanian-source income regardless of the nationality of the individual and the location of the payment of the income.
- For tax purposes, the nationality of the individual is irrelevant.
- Individuals are considered resident for tax purposes if they reside or remain in Panama for more than 183 continuous or noncontinuous days in the calendar year or in the immediate preceding year or if they have established their permanent residence in Panama.
- Taxable income includes wages, salaries (including salaries in kind), bonuses, pensions, directors' fees, profit sharing, severance payments, seniority premium payments and other remuneration for personal services.
- Education allowances are considered to be taxable salary and, consequently, they are subject to income tax and social security contributions.
- Profits derived from business, commercial and agricultural activities in Panama are subject to tax.
- Farming income is exempt from tax if gross sales are less than PAB300,000.
- Withholding tax is levied on the income of nonresidents at a rate of 15% plus the educational tax at a rate of 2.75%.
- Employment income and self-employment income are taxable at the following rates.

Taxable income		Tax on Lower Amount (PAB)	Rate on Excess (%)
Exceeding (PAB)	Not Exceeding (PAB)		
0	11,000	0	0
11,000	50,000	0	15
50,000	-	5,850	20





## Social Security

- Social security contributions are levied on salaries, at a rate of 12.25% for the employer and 9.75% for the employee.
- Contributions are computed based on an employee's gross compensation.
- No ceiling applies to the amount of remuneration subject to social security contributions.
- In addition, employers must pay workers' compensation insurance, which covers work-related personal injuries and death and occupational diseases, at rates that vary from 0.056% to 5.67%, depending on the type of business and other risk factors.
- Panama has not entered into any social security totalization agreements with other countries.

Contribution	Employer	Employee
Social Security Contributions	12.25%	9.75%
Workers' Compensation Insurance	0.056% to 5.67%	-





## Deductible Expenses

### Personal Deductions

- Interest paid on mortgage loans for homes or for home improvements on residences located in Panama is deductible, up to a maximum of USD 15,000 annually, provided the interest payment is not classified as preferential interest for new homes.
- Interest paid on loans for financing education is deductible if duly supported.
- Medical expenses are deductible, provided they were incurred in Panama and are duly documented.
- From January 2019, educational expenses are deductible up to USD 3,600 per student.
- Donations to local educational and charitable institutions are deductible, provided the deductions are authorized by the law establishing such institutions or by the Income Tax Department.
- Dues paid to non-profit associations or organizations in Panama are also deductible expenses.
- The maximum deduction allowed is USD 50,000 annually.
- The contributions to retirement funds are considered deductible up to USD 15,000.
- An individual who is married is entitled to a personal exemption of USD 800.



## Deductible Expenses

<b>Interest Deductions</b>	<ul style="list-style-type: none"> <li>• Interest paid on mortgage loans for homes or for home improvements on residences located in Panama is deductible, up to a maximum of USD 15,000 annually, provided the interest payment is not classified as preferential interest for new homes.</li> <li>• Interest paid on loans for financing education is deductible if duly supported.</li> </ul>
<b>Medical Expenses</b>	<ul style="list-style-type: none"> <li>• Medical expenses are deductible, provided they were incurred in Panama and are duly documented.</li> </ul>
<b>Educational Expenses</b>	<ul style="list-style-type: none"> <li>• From January 2019, educational expenses are deductible up to USD 3,600 per student.</li> </ul>
<b>Charitable Contributions</b>	<ul style="list-style-type: none"> <li>• Donations to local educational and charitable institutions are deductible, provided the deductions are authorized by the law establishing such institutions or by the Income Tax Department.</li> <li>• Dues paid to non-profit associations or organizations in Panama are also deductible expenses.</li> <li>• The maximum deduction allowed is USD 50,000 annually.</li> </ul>
<b>Retirement Fund Contributions</b>	<ul style="list-style-type: none"> <li>• The contributions to retirement funds are considered deductible up to USD 15,000.</li> </ul>
<b>Personal Allowance</b>	<ul style="list-style-type: none"> <li>• An individual who is married is entitled to a personal exemption of USD 800.</li> </ul>



## Immigration

- The government of Panama grants work permits to foreign employees who have special knowledge or experience in a certain field and whose country of origin maintains economic, professional and friendly ties with the Republic of Panama.
- The granting of a work authorization is subject to certain rules that have to be checked on a case-by-case basis because these rules often vary.
- The Ministry of Labor and Employment Development grants the work permit after the foreigner obtains the residence permit granted by the National Immigration Service.
- Foreign nationals may work in Panama only if they have obtained a permanent or temporary residence permit and the work permit that allows them to work.
- Depending on the category, a visa may be valid for one year and may be renewed for the same period, up to five additional years.
- Certain types of visas are issued indefinitely and others are issued for up to five years and are renewable for the same time period.

### **Residence and temporary work permit in the capacity of personnel hired as executives of international companies, whose functions take effect abroad**

- Special temporary visitors' visas may be obtained by international executives of companies that have Panamanian operations and by press correspondents.

- International executives with a special temporary visa who receive a monthly salary of at least USD2,000 that comes from a foreign source for transactions or services executed or having effects abroad are not subject to income tax, educational tax and or social security tax in Panama.

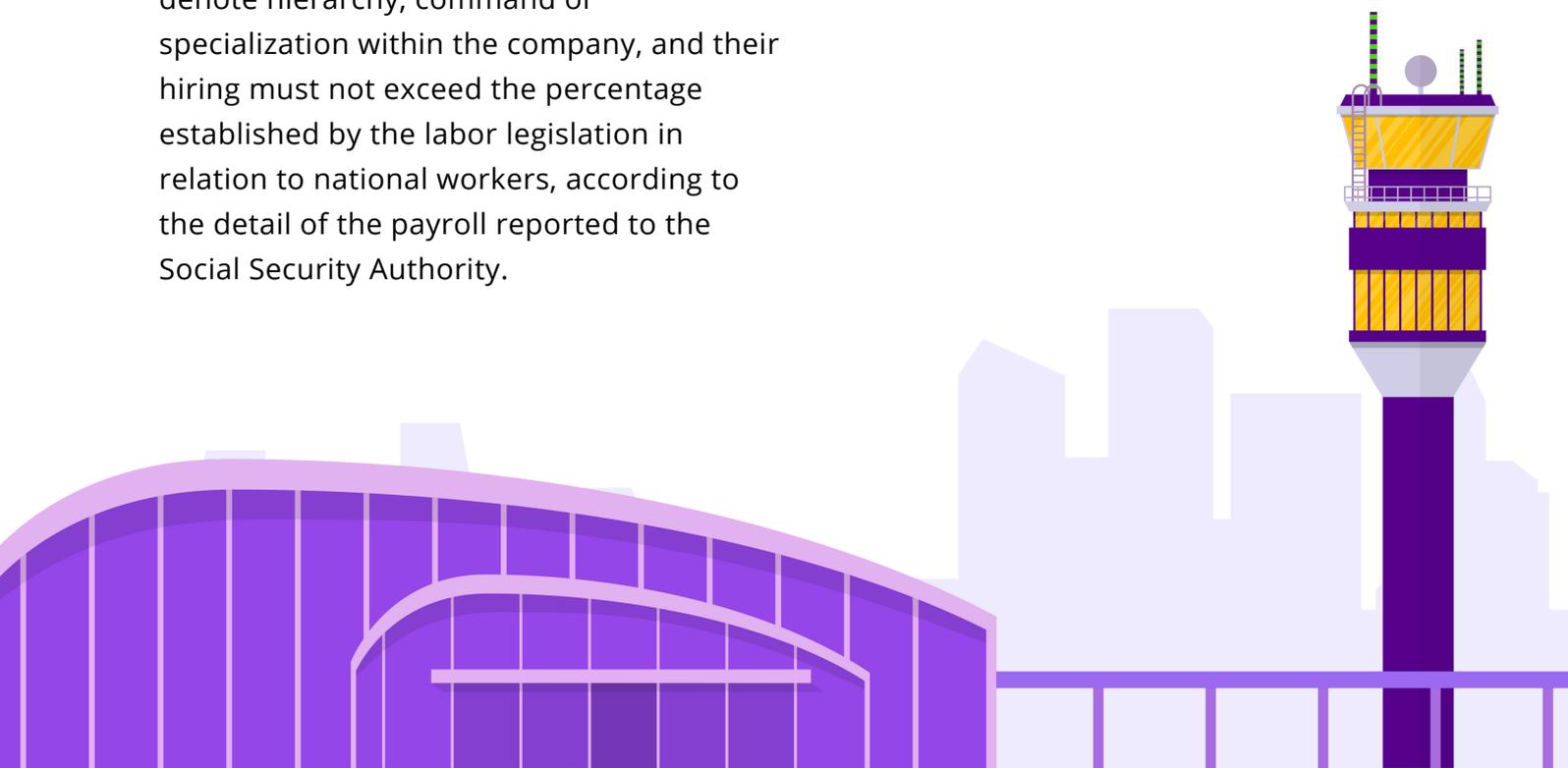
### **Residence permit for permanent employee hired by Multinational Company Headquarters**

- Under the Multinational Company Headquarters Law (Law No. 41 of 27 August 2007; known as SEM for its acronym in Spanish), foreign personnel and their dependents may obtain a Multinational Company Headquarters Permanent Personnel Visa or a Dependent of Multinational Company Headquarters Permanent Personnel Visa.
- For tax purposes, salaries and other similar remuneration received by foreign persons with a Multinational Company Headquarters Permanent Personnel Visa is considered foreign-source income, and accordingly, not subject to tax in Panama if the foreigner receives the payments from abroad.
- SEM visas also provide for an exemption from social contributions in Panama.



## Migratory and labor options for a company hiring a foreigner

- The migratory and labor options for a company hiring a foreigner include, among others, the following:
  - 10% of the ordinary personnel (10% category)
  - 15% of the specialized personnel (15% category)
  - Marrakesh Agreement.
- The residence and work permit under this agreement applies to foreigners who enter the country to work in a company with less than 10 Panamanian employees.
- The 10% category can be requested by foreigners who will be hired by private companies in Panama and who earn a monthly salary not less than USD850.
- Foreigners hired under the 10% category must hold ordinary positions, which do not denote hierarchy, command or specialization within the company, and their hiring must not exceed the percentage established by the labor legislation in relation to national workers, according to the detail of the payroll reported to the Social Security Authority.
- The 15% category may be requested by foreigners who will be hired by private companies in Panama and who earn a monthly salary not less than USD850.
- Foreigners hired in the 15% category must hold a position of technician, expert or manager, and/ or be considered trustworthy personnel (as defined in Article 84 of the Labor Code) within the company, and their hiring must not exceed the percentage established by the labor legislation in relation to national workers, according to the detail of the payroll reported to the Social Security Authority.
- After the term of two years of the provisional residence permit, the foreigner can apply for permanent residence.



Type of Visa/ Permits	Documentation	Validity	Eligibility
<b>Work Permit if Less than 10% of the Company is Foreign</b>	<ul style="list-style-type: none"> <li>• The Panama Work Permit application</li> <li>• Letter of responsibility issued by the future employer in Panama</li> <li>• Original and two (2) copies of the future full-time Employment Contract</li> <li>• Certificate of School Records and Professional Experience, legalized either by a Panama Consul or by the internationally recognized Apostille</li> <li>• Eight (8) photos, passport sized</li> </ul>	Maximum 6 years	<ul style="list-style-type: none"> <li>• The 10% category can be requested by foreigners who will be hired by private companies in Panama and who earn a monthly salary not less than USD850.</li> <li>• Foreigners hired under the 10% category must hold ordinary positions, which do not denote hierarchy, command or specialization within the company, and their hiring must not exceed the percentage established by the labor legislation in relation to national workers, according to the detail of the payroll reported to the Social Security Authority.</li> </ul>
<b>Temporary Residency Work Permit</b>	<ul style="list-style-type: none"> <li>• The Panama Work Permit application</li> <li>• Letter of responsibility issued by the future employer in Panama</li> <li>• Original and two (2) copies of the future full-time Employment Contract</li> <li>• Certificate of School Records and Professional Experience, legalized either by a Panama Consul or by the internationally recognized Apostille</li> <li>• Eight (8) photos, passport sized</li> </ul>	Maximum 6 years	<ul style="list-style-type: none"> <li>• Special temporary visitors' visas may be obtained by international executives of companies that have Panamanian operations and by press correspondents.</li> <li>• International executives with a special temporary visa who receive a monthly salary of at least USD2,000 that comes from a foreign source for transactions or services executed or having effects abroad are not subject to income tax, educational tax and or social security tax in Panama</li> </ul>



Type of Visa/ Permits	Documentation	Validity	Eligibility
<b>Residence permit for permanent employee hired by Multinational Company Headquarters (SEM)</b>	<ul style="list-style-type: none"> <li>• Proof of affiliation to the Social Security Authority</li> <li>• Demonstrate to have worked in one or several SEM companies, for a minimum of five (5) years</li> <li>• The Panama Work Permit application</li> <li>• Letter of responsibility issued by the future employer in Panama</li> <li>• Original and two (2) copies of the future full-time Employment Contract</li> <li>• Certificate of School Records and Professional Experience, legalized either by a Panama Consul or by the internationally recognized Apostille</li> <li>• Eight (8) photos, passport sized</li> </ul>	Maximum 6 years	<ul style="list-style-type: none"> <li>• Under the Multinational Company Headquarters Law (Law No. 41 of 27 August 2007; known as SEM for its acronym in Spanish), foreign personnel and their dependents may obtain a Multinational Company Headquarters Permanent Personnel Visa or a Dependent of Multinational Company Headquarters Permanent Personnel Visa.</li> <li>• For tax purposes, salaries and other similar remuneration received by foreign persons with a Multinational Company Headquarters Permanent Personnel Visa is considered foreign-source income, and accordingly, not subject to tax in Panama if the foreigner receives the payments from abroad.</li> <li>• SEM visas also provide for an exemption from social contributions in Panama.</li> </ul>



## Value Added Tax (VAT)

- The movable goods and services transfer tax (Impuesto de Transferencia de Bienes Muebles y Prestación de Servicios or ITBMS) is the Panamanian value-added tax (VAT).
- The general tax rate is currently 7%.

### VAT Rates

Standard Rates	7%
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# Withholding Tax

## Dividends

- Companies holding a “notice of operation” or otherwise carrying out business in Panama must withhold tax at a rate of 10% on dividends distributed out of domestic profits (20% in the case of bearer shares) and 5% on dividends distributed out of foreign source profits or export profits
- Companies located within Panama’s FTZs must withhold a 5% tax on distributions; however, some activities performed in the Panama-Pacific Special Economic Area are exempt from dividend withholding tax
- The subsequent distribution of dividends will not be taxed if tax already has been withheld at the 10% or 5% rate
- If a corporation does not declare dividends in a particular year, it must pay a retained earnings tax of 10% (20% in the case of bearer shares) of 40% of its after-tax income.
- A 2% retained earnings tax is withheld on profits distributed by a company established in an FTZ or related to foreign-source income taxed at the 5% rate
- A 10% dividend tax (20% in the case of bearer shares) is withheld on all loans or advances granted by a company to its shareholders, regardless of the income source.
- The withholding tax rate applicable to the distribution of dividends from real estate investment companies is 10%

## Interest

- Interest paid to a nonresident is subject to a 12.5% withholding tax (50% of the interest is subject to the general 25% corporate tax rate)

## Royalties

- Royalties paid to a nonresident are subject to a 12.5% withholding tax (50% of the general 25% rate) if the payment is necessary for the generation of Panamanian source income and if the expense has been considered deductible in Panama

## Fees for Technical Services

- Fees for technical services paid to a nonresident are subject to a 12.5% withholding tax (50% of the general 25% rate) if the service is necessary for the generation of Panamanian source income and if the expenses has been considered deductible in Panama



Type of Payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
<b>Dividends</b>	5%/10%/20%	5%/10%/20%	5%/10%/20%	5%/10%/20%
<b>Interest</b>	0%	0%	12.5%	12.5%
<b>Royalties</b>	0%	0%	12.5%	12.5%
<b>Technical Service Fee</b>	0%	0%	12.5%	12.5%

## Statutory Benefits

- These are mandatory benefits as postulated by law
- These include probationary period, annual leave, public holidays, sick leave, maternity leave, paternity leave, overtime pay, severance pay and 13th month pay.
- Statutory benefits also include social security benefits

Statutory Benefits
Probationary Period
Annual Leave
Public Holidays
Maternity Leave
Paternity Leave
Sick Leave
Overtime Pay
Severance Pay
13th Month Pay
Social Security Contributions



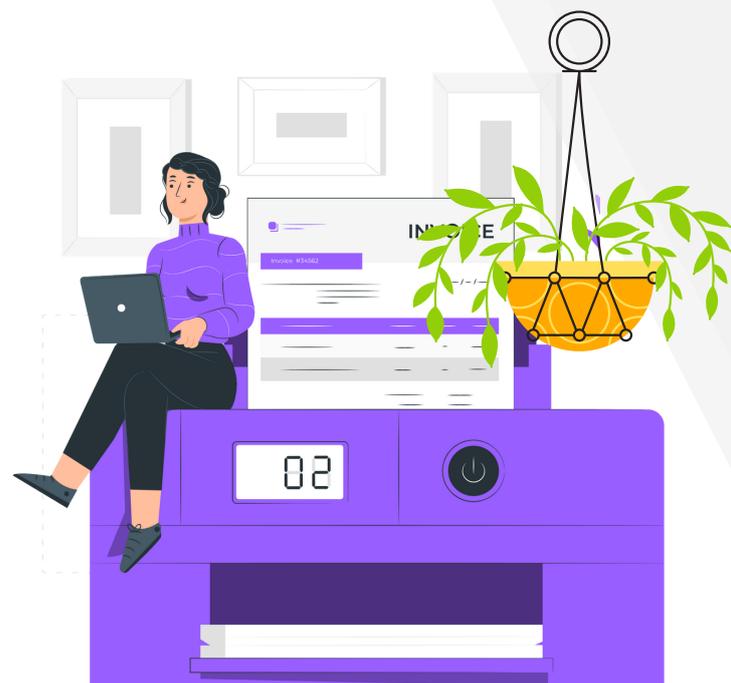


## Termination

- The employer cannot prematurely terminate a labor relationship contract without justification under the law.
- These are considered to be justified by law: disciplinary, economic reasons or causes of unavoidable accidents and chance occurrences.
- Generally, there are no statutory notice periods to be observed.
- However, there is an exception for some specific categories of workers to which the "just cause" rule does not apply.
- Those workers can be dismissed without just cause provided that the employer gives 30 days' prior notice or pay the corresponding amount in addition to a payment amounting to compensation for unfair dismissal.
- This rule applies to those workers with less than two years' uninterrupted service; domestic employees; permanent employees of small agricultural, fishing or manufacturing undertakings; seafarers serving on board vessels operating on international routes; apprentices; workers in retail sales establishments and in undertakings with five or fewer workers, except in the case of insurance establishments or real estate (art. 212 LC).
- The employee can put an end to the employment relationship without supporting reasons through a written notification with 15 days' notice.
- Severance pay is counted at the rate of one week's wages for each year the employee has worked for the company.
- The employee also receives vacation payment which is 30 days for each 11 consecutive months worked.

## Payments and Invoicing

- Employers are responsible for withholding income taxes and social security contributions from an employee's salary on a monthly basis.
- Employees are not required to file an annual income tax return if their only source of income is employment compensation.
- Nonresidents are not required to file an annual income tax return if their income tax liability has been satisfied through withholding at source.
- By 31 May of each year, employers must file an annual form providing all information on taxes withheld from employees.
- Individuals earning more than one salary or receiving other taxable income not subject to withholding tax must file an annual income tax return.
- If individuals earn taxable income from their own business, they must file annual income tax returns, even if the net result for the period is a loss.
- The ordinary tax year is the calendar year. Tax returns are due on 15 March of the year following the tax year.
- The regulations provide for an extension of up to one month to file an income tax return.
- The late payment of taxes is subject to a 10% surcharge and late payment interest, which is imposed at a rate of approximately 0.79% to 1%.
- This interest rate equals the annual market interest rate determined by the Banking Supervisory Authority, plus two basis points for every month or fraction thereof that the tax payment is late.
- Tax returns are filed on electronic forms provided by the Ministry of Finance and Treasury.
- Estimated tax, which is calculated in the annual income tax return of the preceding tax year, is due by 30 June or in equal installments on 30 June, 30 September and 31 December of the tax year.
- If the actual taxable income is lower than estimated income, any overpaid tax is applied toward the following year's estimated income tax liability.
- Married persons are taxed jointly or separately, at the taxpayers' election, on all types of income.



## Ease of Doing Business

- The ease of doing business index is an index created by Simeon Djankov, an economist at the Central and Eastern Europe sector of the World Bank Group.
- Higher rankings (a low numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights.
- According to the World Bank Panama ranked 86th in the World in 2019 in terms of ease of doing business.



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