

## **CHAPTER II: CORPORATIONS**

According to Panama's Corporation Law, two or more persons, even though not citizens or residents of the Republic of Panama, may organize a local corporation known as "*sociedad anónima*" (stock company) for any lawful purpose or purposes.

Under the Law, corporations must file Articles of Incorporation ("*Pacto Social*"), under the form of public document, with the Microfilm (Mercantile) Section of the Public Registry. The standard procedure to form a corporation in Panama is to resort to Panamanian attorneys who, acting on behalf of the client, file the Articles of Incorporation, and then assign their rights to the client. Therefore, it is not necessary for the client to come to Panama or to sign any document relating to the constitution of the company.

### **1. Why Panama?**

- Total confidentiality.
- Disclosure of beneficial owners is not a requirement to access registration by the Public Registrar.
- Companies doing business outside Panama are not required to file annual return/financial statements or to keep their books in Panama.
- Annual general meeting of shareholders or directors is not a requirement.
- Full exemption from taxation on business activities or transactions carried outside Panama.
- Speedy incorporation procedures / simple ongoing administration.
- The incorporation of a new company takes approximately five working days. After formal incorporation, a company shall be ready to engage in business.
- Reasonable costs and fees for constitution and continuance proceedings.
- Complete business privacy and confidentiality.
- Neither minimum nor maximum capital requirements.
- Nominative or bearer shares at owner's choice.
- All Entities, natural or created by law, with legal capacity qualify as shareholders, Directors and Officers, regardless of nationality and legal residence.
- Neither the Directors nor the Officers need to be shareholders.
- Shareholders and/or Directors may hold their meetings in any country and may attend such meetings by proxy.

### **2. Information Required to Form a Corporation**

The articles of incorporation shall contain, at least, the following basic information:

- The names and domiciles of the subscribers (at least two), which are usually attorneys from the firm in charge of the incorporation.
- The name and domicile of the corporation, which shall include the words "*sociedad anónima*", corporation, or incorporated, or their abbreviations; the name shall not be the same of any other previously registered corporation, to avoid possible confusions. Several possible names should be submitted in order

of preference to prevent delays resulting from name duplication.

- The general purposes or objects of the corporation, or a statement declaring it may engage in all lawful activities, or both.
- The amount of authorized capital stock, indicating the number of shares into which such capital is to be divided.
- Whether or not the shares would have par value. In the event shares are to be issued without par value, then it is not necessary to state the amount of capital, but it would be required to indicate the number of shares that shall be issued and the formula to establish the stated capital.
- Whether the shares shall be issued to bearer or as registered shares.
- The name and domicile of the resident agent, who must be a lawyer or a law firm in the Republic of Panama.
- The full names (no initials), and the addresses of at least three Directors and Officers. There is no nationality requirement with respect to Officers or Directors. Officers are usually a President, a Treasurer and a Secretary. The Directors and the Officers, may be the same persons and need not be shareholders.

### **3. Registration Rights**

- Registration Rights are US\$ 50.00 when the authorized capital does not exceed US\$ 10,000.00;
- If the authorized capital is more than US\$ 10,000.00 without exceeding US\$ 100,000.00, for the first US\$ 10,000.00 the Registration Rights will be US\$ 50.00 plus US\$ 0.90 for every additional US\$ 1,000.00 or fraction thereof;
- If the authorized capital exceeds US\$100,000.00 up to US\$1,000,000.00 the Registration Rights will be US\$ 131.00 for the first US\$100,000.00 plus US\$0.60 for every additional US\$1,000.00 on fraction thereof;
- If the authorized capital exceeds US\$ 1,000,000.00 the Registration Rights will be US\$ 671.00 for the first US\$ 1,000,000.00 plus US\$ 0.12 for every additional US\$ 1,000.00 or fraction in excess of US\$ 1,000,000.00; shares without par value will be calculated on the basis of US\$ 20.00 per share;
- Examination Rights for the Articles of Incorporation are US\$ 10.00, which must be paid in addition to the Registration Rights;
- There is an Annual Corporate Tax of US\$250.00. Law requires corporations to pay said fee in order to be certified as in Good Standing. Good standing refers in this case to valid registration with respect to the Public Registry Payment of the Annual Corporate Tax has to be made until June 30<sup>th</sup> the corporations registered within January and June and until December 31<sup>st</sup> the corporations registered within July and December. Failure to make such payments before deadline will cause a surcharge of US\$ 50.00 per year or part thereof. Additionally, the failure in paying the annual franchise tax for more than one period will carry out a fine of US\$250.00.

### **4. Taxes and General Information on Corporations**

- Panama Income Tax is levied only upon “Income” derived from operations performed within the territory of the Republic of Panama. Income obtained from

sources or activities performed outside Panama are not taxable under our law. (Tax is levied on the Theory of the Territoriality of its source);

- Even if a Panamanian corporation, on any other corporation for that matter, has an office in Panama, has its employees in Panama, and has a license to engage in business in Panama, no **income tax** shall be paid in Panama if the transactions carried out from that corporation only generate income outside of the Republic of Panama;
- If a Panamanian corporation engages in business within the Republic of Panama and also outside Panama, it is subject to income tax only on that portion of its income that is generated from any source within the territory of Panama; the annual rate is 30 %;
- Dividends distributed from taxable income arising from Panama sources are taxable at a rate of 10%. The tax rate subject to withholding will be 20% if the stock of the corporation is issued to bearer;
- Companies with an established office in Panama which do re- invoicing of merchandise<sup>1</sup>, as long as said merchandise or products are only moved abroad, as well as the invoicing of merchandise or products that arrive to national ports or airports in transit to another destination<sup>2</sup>, should consider the income generated in such operations as being of foreign source and thus, not subject to taxation in Panama, as long as the transaction is completed abroad. Merchandise in transit must remain under the official custody of Custom Authorities, who will ensure that it does not illegally enter into the fiscal territory of Panama.

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<sup>1</sup> That is to sell merchandise or products for a greater amount than that for which said merchandise or products have been charged against the office established in Panama.

<sup>2</sup> That is merchandise or products that arrive in Panama to continue on to another foreign destination, with documents that indicate that they are consigned to persons not resident in the Republic of Panama, and with shipping documents that indicate that such merchandise or products shall be remitted abroad immediately after arrival