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CHAMBERS GLOBAL PRACTICE GUIDES

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# International Tax 2026

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**Panama: Law and Practice  
& Trends and Developments**

Anna Cristina Valdés, Edgar Herrera,  
José Manuel Motta and Ramón Arias  
Galindo, Arias & López



# PANAMA



## Law and Practice

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Galindo, Arias & López (GALA) is a Panamanian full-service law firm with an over 55-year tradition of excellence and a commitment to providing legal services of the highest quality and ethical standards. The firm has built long-term relationships with a high-profile, local and international client base, with business interests in Panama and abroad. GALA stands out for its expertise in complex regulatory issues, local and

cross-border transactions, complex asset and project financing transactions from highly regulated industries, and a stellar dispute resolution track record, servicing clients throughout Panama's key business sectors: aviation, energy, telecommunications, banking, finance, infrastructure, real estate, transportation and logistics, tourism and commerce.

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## 1. Sources and Principles

### 1.1 Domestic Sources of International Tax Law

International tax law in Panama is shaped by three main sources:

- legislation;
- administrative regulations; and
- constitutional principles.

Together, these sources define the framework for cross-border taxation, treaty application and international tax compliance.

#### Legislation

The primary statutory framework is contained in Law 8 of 1956 (Fiscal Code), as amended, which establishes the foundations of the Panamanian tax system. Given that the cornerstone of the Panamanian tax system is the territoriality principle, the legislation regulates:

- the taxation of Panamanian-source income;
- withholding tax obligations on cross-border payments;
- transfer pricing rules;
- definitions of tax residence and permanent establishment; and
- procedures applicable to international transactions, among others.

Panama has also incorporated international standards through specific amendments to its tax legislation, particularly in response to OECD and BEPS developments.

#### Tax Administrative Regulation

The Panamanian Tax Authority issues administrative resolutions for guidance on interpreting and clarifying the application of domestic tax law in international matters. These regulations commonly address procedures for requesting treaty benefits, transfer pricing compliance and adjustments, and the issuance of tax residence certificates.

While administrative regulations do not override statutory law, they play a significant role in shaping compliance and enforcement standards.

#### Constitutional Principles

The Political Constitution of the Republic of Panama plays a fundamental role in the international tax framework, guaranteeing principles such as legality of taxation, equality and due process. Furthermore, the Constitution establishes the hierarchy of legal norms, under which international treaties approved and ratified by Panama rank above ordinary legislation. Consequently, tax treaties prevail over domestic tax legislation in case of conflict.

Panama has developed a strategically targeted treaty network, designed primarily to support its position as an international services and logistics hub. Panamanian tax treaties are generally based on the OECD Model Tax Convention, but adapted to reflect Panama's territorial taxation system. The Panamanian treaty network includes agreements with countries in Europe, Latin America, the Middle East and Asia.

## 1.2 Hierarchy of Sources

Panamanian domestic tax law and related statutes establish the basic rules for Panamanian taxation, setting forth Panama's principle of fiscal territoriality, which is the cornerstone of the Panamanian tax system. In that sense, all international obligations must be implemented in a manner consistent with domestic law, including treaties and OECD guidelines.

Once approved and ratified, tax treaties become part of domestic law and prevail over ordinary legislation in case of conflict. They may limit or modify how domestic tax rules apply, but they do not create new taxing rights.

OECD guidelines and commentary are generally applied as a technical reference.

## 1.3 OECD Model/United Nations Influence on Treaty Practice

Panama generally follows the OECD Model Convention when negotiating its bilateral double taxation agreements. Most of its treaties adopt OECD provisions regarding permanent establishment, the allocation of taxing rights, exchange of information and mutual agreement procedures.

However, in the past, the country has also incorporated elements of the UN Model Convention in its treaties with countries seeking greater taxing rights at source, particularly in treaties with developing countries.

Given that Panama operates under a territorial tax system, its treaties are often adapted to align with domestic source territorial rules.

While Panamanian treaties are broadly consistent with the OECD Model, each treaty must be reviewed individually to identify such variations.

## 1.4 Multilateral Instrument

Panama is a signatory to the Multilateral Instrument, which was ratified by Panama's National Assembly on 15 October 2020.

## 2. Territoriality, Residence and Permanent Establishment

### 2.1 General Principle of Territorial Taxation

Panama's tax system is founded on the principle of fiscal territoriality. Under this principle, Panamanian income tax generally applies only to income that is legally considered Panama-source income, meaning income generated within the territory of the Republic of Panama.

The system is objective, as it does not take an individual's nationality, domicile or residence into account. In practice, this means that both Panamanians and foreigners are equally subject to taxation on income derived from Panamanian sources, regardless of where they live or hold citizenship or residence.

### 2.2 Tax Residence of Individuals

An individual is considered a tax resident of Panama if they remain in the national territory for more than 183 days during a fiscal year or the immediately preceding year, whether consecutively or non-consecutively. An individual will also be deemed a Panamanian tax resident if they have established a permanent home in the Republic of Panama. In that regard, the Panamanian Tax Authority interprets the concept of a permanent home as the individual's centre of vital interests, which may include both economic and family ties. In practice, this means that residency is determined not only by physical presence but also by the strength of the person's personal, family and economic connections to Panama.

### 2.3 Taxation of Resident Individuals

Individuals (either Panamanian or foreign), domiciled in Panama are taxed solely on the income they produce within Panamanian territory. Panama's individual income tax is progressive, and will apply as follows:

- up to USD11,000: 0 % (no tax);
- USD11,001 to USD50,000: 15 % on the amount over USD11,000; and
- above USD50,000: USD5,850 plus 25 % on the excess over USD50,000.

These brackets apply to net taxable income after allowable deductions.

It is important to note that an individual may be considered a taxpayer in Panama without being a tax resident. Therefore, the term “tax resident” should not be taken into consideration for assessing tax liability under Panamanian law.

## 2.4 Taxation of Non-Resident Individuals

Individuals domiciled abroad and earning Panamanian-source income are generally subject to withholding tax on employment or professional income derived within Panama. In practice, the same progressive tax rates that apply to residents are also used to calculate the tax on Panama-source income for individuals domiciled abroad.

For withholding purposes, the payor is responsible for withholding and remitting the income tax to the Panamanian Tax Authority. The withholding is calculated on 50% of the total amounts paid to the individual, using the applicable progressive tax rates outlined in **2.3 Taxation of Resident Individuals**. Such withholding tax rates may be reduced by the application of a double tax treaty.

## 2.5 Tax Residence of Legal Entities

Legal entities will be considered tax residents of Panama if they are incorporated in Panama or properly registered as foreign entities in the Panamanian Public Registry, and if they maintain the material means of management and administration within Panamanian territory.

In practice, this generally entails the following.

- Board of directors’ meetings in Panama: the company’s board must hold meetings in Panama to show that strategic decisions are made locally, supporting the determination that the place of effective management is in Panama.
- Substantive commercial or support activities: the company must actively conduct commercial operations or provide services to affiliates or third parties. Mere existence on paper is not sufficient.
- Personnel in Panama: the company must maintain employees in Panama to carry out its business operations.

- Physical office space: the company must have a functional office in Panama from which its staff perform day-to-day activities.

## 2.6 Definition of Permanent Establishment

Panama’s concept of permanent establishment is generally aligned with the OECD Model Convention. However, the definition contained in Panama’s domestic regulations does have certain deviations.

In Panama, a foreign individual or legal entity is considered to carry on business in the Republic of Panama through a permanent establishment when, directly or through an agent, employee or representative, it maintains in Panamanian territory any fixed place of business or any centre of activity where its business is conducted, in whole or in part. Foreign individuals or legal entities are also considered to have a permanent establishment in Panama when they maintain a head office, branch, offices, factories, workshops, facilities, warehouses, stores or other establishments in Panama, and also in cases in which such individual or legal entity:

- carries out construction, installation or assembly projects (including related supervision) for more than 183 days within a 12-month period;
- provides services, including consulting, directly or through personnel, for the same or related project for more than 183 days in a 12-month period;
- uses equipment, facilities or platforms for natural resource exploration or exploitation for over 183 days in a 12-month period; or
- conducts activities in mining, hydrocarbons, agriculture, forestry, livestock or other natural resource extraction, or maintains workplaces for professional or artistic activities, directly or through personnel.

Regarding deviations to the OECD Model’s permanent establishment concept, please note the following.

- Service permanent establishments are recognised when services, including consulting, are provided for more than 183 days in a 12-month period, even without a fixed office, whereas the OECD Model recognises service permanent establishments but

leaves thresholds and application to individual treaties.

- Construction, installation and assembly projects in Panama exceeding 183 days are considered a permanent establishment, while the OECD typically applies a 12-month threshold.
- Panama also explicitly treats the use of equipment, drilling platforms and installations for natural resource exploitation as a permanent establishment if used for more than 183 days, whereas the OECD focuses more on substance than on detailed activity lists.

## 3. Taxation of Cross-Border Income

### 3.1 Income From Immovable Property

Income derived from immovable property located in the Republic of Panama is subject to Panamanian income tax, regardless of the owner's nationality, residence or domicile. The determining factor is the location of the property, as Panama applies a territorial tax system.

Upon the transfer of Panamanian real estate, the seller is subject to the capital gains tax regime, whether the seller is an individual or a legal entity, Panamanian or foreign. The seller may choose between two alternatives:

- they may file a tax return with the Panamanian Tax Authority, calculating the actual taxable gain (transfer price minus deductible costs and expenses allowed by law), and pay income tax at a 10% rate on the net gain; or
- they may pay 3% of the higher of the transfer value or the assessed value of the property, as an advance payment of capital gains tax. The seller may elect to treat this 3% payment as the final and definitive tax on the transaction.

If the 3% advance exceeds the tax resulting from applying the 10% rate to the actual gain, the taxpayer may request a refund or apply the excess as a tax credit.

Importantly, for notarial purposes, the public deed of transfer must include proof of payment of the corresponding income tax or advance payment.

Furthermore, income derived from the lease of immovable property located in Panama constitutes Panamanian-source income and is therefore subject to Panamanian income tax in the hands of the recipient, at the applicable general rates for individuals or legal entities. Immovable property located in Panama will amount to a permanent establishment for its foreign owner, individual or corporate.

### 3.2 Business Profits

Business profits derived from activities carried out within Panamanian territory are subject to income tax at the general rates applicable to individuals and legal entities, in accordance with Panama's territorial tax system, under which only Panama-source income is taxable.

Generally, in the context of cross-border transactions, income is considered Panama-source income when it is received by individuals or legal entities domiciled outside the Republic of Panama as a result of any service or act, whether documented or not (produced within or outside the Republic of Panama), that benefits individuals or entities, domestic or foreign, located within Panama. This applies to the extent that the service affects the production or preservation of Panama-source income and the related expense has been treated as a deductible expense by the Panamanian payor.

For these purposes, the Panamanian payor must withhold income tax by applying the general income tax rate to 50% of the gross amount remitted abroad and remit such tax directly to the Panamanian Tax Authority. Considering that the general corporate income tax rate is currently 25%, the effective withholding rate amounts to 12.5% of the gross amount remitted. In the case of payments made to individuals, the applicable rate may vary depending on the amount remitted and the total income received by such individual during the relevant fiscal period, in accordance with the progressive rates established under Panamanian law.

### 3.3 Passive Income

Under Panamanian law, withholding taxes will apply, depending on the nature of the payment and the recipient.

Dividends are generally subject to dividend tax at a 10% rate when distributed out of Panamanian-source profits and 5% when distributed out of foreign-source profits.

On the other hand, interest and royalties paid to foreign recipients are generally subject to withholding at an effective rate of 12.5% (25% applied on a deemed 50% base, under the rules described above, applicable to corporations). In the case of payments made to individuals, the applicable rate may vary depending on the amount remitted and the total income received by such individual during the relevant fiscal period, in accordance with the progressive rates established under Panamanian law.

Applicable tax treaties may reduce the domestic rates, subject to treaty conditions and limitations.

### 3.4 Capital Gains

Income derived from the sale of shares is subject to Panama's capital gains tax regime at a 10% rate on the net gain.

In the case of transfers of securities (including shares) that generate Panama-source income (meaning that the securities are considered economically invested within Panamanian territory), the purchaser is required to withhold 5% of the gross purchase price as an advance payment of capital gains tax.

The seller may elect to treat this 5% withholding as the final tax due on the transaction, or alternatively file a tax return calculating the actual capital gain and apply the 10% rate to the net gain. If the 5% withheld exceeds the tax resulting from applying the 10% rate to the actual gain, the seller may request a refund or apply the excess as a tax credit, in accordance with Panamanian tax regulations.

For real estate capital gains tax, please see **3.1 Income From Immovable Property**.

### 3.5 Employment Income

Employment income is taxed under the general individual income tax regime and, consistent with Panama's territorial system, only Panamanian-source employment income is subject to tax (that is, compensation attributable to services performed in Panama), regardless of the individual's nationality, residence or domicile. The applicable progressive rates are:

- 0% up to USD11,000;
- 15% on the excess from USD11,000 to USD50,000; and
- 25% on amounts above USD50,000.

The employer is generally required to withhold and remit the corresponding income tax, including where the recipient is not tax resident in Panama.

With respect to short-term assignments or cross-border employment, Panama does not have a special domestic short-term exemption rule. Taxation depends primarily on whether the services are physically performed in Panama. However, relief may be available under an applicable double tax treaty, subject to meeting the treaty conditions. For corporations, remote work arrangements may raise permanent establishment considerations, depending on the level of activity and degree of permanence in Panama.

### 3.6 Other Income

Other than the territorial sourcing principle and the associated withholding mechanisms, there are no specific categories of income subject to a materially different treatment that would require separate treatment for purposes of this chapter.

## 4. OECD/G20 Global Tax Reform

### 4.1 Pillar One – Amount B

Panama has not implemented Amount B in its domestic legislation.

### 4.2 Pillar One – Amount A

Panama has not yet taken formal or publicly announced steps to implement Pillar One Amount A within its domestic tax framework. Hence, the country has not formally confirmed its position on such.

## 4.3 Pillar Two

Panama has not yet implemented the global minimum tax.

## 4.4 Specific Features or Deviations of Pillar Two

Panama has not yet implemented the global minimum tax.

## 4.5 Digital Services Tax

Panama has not yet implemented a specific tax on digital products or digital services.

## 5. Anti-Avoidance and Anti-Evasion Measures

### 5.1 Definition and Identification of Tax Fraud, Evasion, Tax Avoidance and Abusive Schemes

Under the Panamanian Tax Procedure Code (Law 76 of 2019), tax evasion and tax fraud involve intentional and fraudulent conduct aimed at avoiding or reducing the payment of taxes in violation of the law. Indicators of such conduct may include:

- material irregularities in accounting records;
- false bookkeeping entries;
- the issuance or use of false invoices;
- the destruction of mandatory records;
- simulated transactions; and
- the intentional failure to remit taxes that have been withheld.

By contrast, tax avoidance (*elusión*) refers to the execution of acts or transactions that depart from the purpose intended by the law, without a valid economic or legal justification other than reducing the tax burden or obtaining undue tax benefits or credits. Unlike evasion, avoidance does not necessarily involve the element of criminal intent (*dolus*), but rather an improper use of legal forms or structures.

Furthermore, the Panamanian Tax Authority may recharacterise simulated or artificial transactions and apply a general anti-avoidance approach, disregarding legal forms that are manifestly improper and designed solely to obtain a tax advantage.

## 5.2 Anti-Avoidance Mechanisms

Panama's primary procedural anti-avoidance mechanisms include:

- the power to recharacterise simulated or sham transactions, taxing the acts effectively carried out rather than their formal appearance; and
- a general anti-avoidance rule (GAAR) that allows the Panamanian Tax Authority, within the framework of a tax audit, to disregard legal forms that are manifestly improper and prearranged solely to avoid taxation or obtain an undue tax benefit. In such cases, the burden rests on the Tax Authority to substantiate the existence of fraud or improper conduct under tax law.

These tools are complemented by the Tax Authority's broad audit and verification powers, including on-site inspections, review of accounting books and supporting documentation, and examination of electronically stored information. The system is further reinforced by a sanctions regime addressing both formal non-compliance and substantive violations, including administrative tax evasion and criminal tax fraud.

In addition, the Panamanian Tax Procedure Code establishes a formal whistle-blower mechanism for reporting tax evasion or criminal tax fraud, including a statutory reward calculated as a percentage of the amounts effectively collected as a result of the report.

### 5.3 Blacklists and Non-Cooperative Jurisdictions

Panama does not hold a list of non-cooperative or high-risk jurisdictions for tax purposes, but it does have a mechanism and a formal list of countries to which it may apply retaliatory measures, which is distinct from tax blacklists used by other jurisdictions. The legal basis for this is Law 48 of 26 October 2016 (which replaced an earlier retorsion law), under which Panama can publish a list of states that "discriminate against the Republic of Panama", and then consider reciprocal or retaliatory actions.

## 5.4 Reporting Obligations and Disclosure Regimes

The Panamanian Tax Procedure Code establishes broad compliance, reporting and disclosure obligations aimed at preventing tax evasion and avoidance.

Such regulation sets forth statutory obligations for taxpayers and other obligated persons, including:

- registering and keeping information up to date in the tax registries;
- filing sworn returns, self-assessments and related submissions;
- maintaining accounting books and tax records;
- supporting transfers of goods and the provision of services with legally issued vouchers, invoices or receipts; and
- providing information generally required under tax rules or specifically requested by the tax authority, together with a general duty to co-operate with the tax authority.

Furthermore, such regulation imposes an express obligation on third parties to provide relevant tax information derived from their economic, professional or financial relationships with taxpayers, subject to professional secrecy and other legal privileges. The Code also authorises the tax authority to conduct on-site verifications in establishments open to the public, requiring express authorisation, and establishes that audit reports (minutes) retain validity and probative value even if the taxpayer or its representatives refuse to sign or receive a copy.

## 5.5 Role of Tax Authorities and Enforcement Measures

Pursuant to provisions set forth in the Panamanian Tax Procedure Code, the Panamanian Tax Authority has extensive powers to audit and verify compliance.

Such regulation authorises the tax authority to require taxpayers to present, at their domicile or business premises, accounting books, records and supporting documents related to taxable transactions, including electronic records. It also allows audits at the premises of taxpayers and relevant third parties, asset inventories and reviews of accounting systems. These powers may be exercised jointly or successively, and the

tax authority may request assistance from other competent authorities. In cases of repeated obstruction or impediment, the authority may conduct searches and seize goods and documents, as legally permitted.

It is worth noting that, under such regulation, on-site inspections in establishments that are open to the public require express authorisation for officers, and all findings must be recorded in formal minutes. The validity and probative value of these audit reports are not affected if the taxpayer or representatives refuse to sign or receive a copy.

## 6. Penalties and Sanctions

### 6.1 Tax Penalties

In the Republic of Panama, the Panamanian Tax Authority is responsible for imposing fines and sanctions, issuing tax assessments, and enforcing compliance. It also oversees the application of double tax treaties, transfer pricing matters, the issuance of tax residence certificates, and the determination of permanent establishments.

The legal framework governing penalties related to cross-border transactions is primarily:

- the Panamanian Tax Code (Law 8 of 1956, as amended), which establishes substantive tax obligations, including penalties for non-compliance; and
- the Panamanian Tax Procedure Code (Law 76 of 2019), which sets out procedural rules for tax assessments, collection, appeals and enforcement.

Together, these laws authorise the Panamanian Tax Authority to assess and enforce penalties in the context of cross-border operations, ensuring compliance with both domestic tax rules and Panama's international obligations.

### 6.2 Criminal Penalties

Tax evasion in Panama is understood as any act or conduct carried out by a taxpayer with intentional fraud (*dolus*) to avoid paying or to reduce taxes in violation of the law. According to Panamanian law, tax evasion can take two forms.

- Administrative tax evasion applies when the amount evaded is less than USD300,000 per year, excluding fines, surcharges and interest. In such cases, the matter is handled administratively by the Panamanian Tax Authority. If the non-payment occurs without concealment or the intentional use of fraudulent means, the sanction will consist of a fine ranging from 25% to 50% of the taxes owed.
- Criminal tax evasion (fraudulent tax evasion) applies when the amount evaded is equal to or exceeds USD300,000. Such cases fall under the jurisdiction of the Public Prosecutor's Office and constitute the criminal offence of fraudulent tax evasion.

It is important to note that in cases of criminal tax evasion, both individuals involved and the legal entity itself may face sanctions, including prison sentences. These criminal proceedings also carry extrajudicial consequences, which have been applied to fiscal periods starting in 2019, adding further implications for taxpayers found guilty of this offence.

## 6.3 Interaction Between Tax and Criminal Procedures

The Panamanian Tax Authority is responsible for identifying potential tax evasion or fraud. If the amount involved meets the threshold for criminal tax evasion (see 6.2 Criminal Penalties), the Tax Authority must automatically refer the case to the Public Prosecutor's Office. Once referred, the Public Prosecutor reviews the evidence and may open a criminal investigation for fraudulent tax evasion.

## 7. Administrative Co-Operation

### 7.1 Legal Framework for Administrative Co-Operation

The following legal instruments that form the basis of administrative co-operation in tax matters in the Republic of Panama:

- double tax conventions with mutual agreement procedures and information exchange provisions;
- tax information exchange agreements duly executed by the Republic of Panama;

- the OECD Multilateral Instrument and other OECD standards; and
- domestic legislation that implements these international commitments.

### 7.2 Exchange of Information Clauses in Tax Agreements

The Republic of Panama exchanges information as follows:

- automatically – the country has implemented the Common Reporting Standard of the OECD;
- upon request, as per double tax treaties and tax information exchange agreements; and
- spontaneously, if it identifies matters or interest in another jurisdiction, based on the legal framework provided by its tax treaties and domestic legislation.

### 7.3 Other Forms of International Tax Collaboration

Panama participates in multilateral arrangements mainly through the mutual agreement procedure and information exchange under existing treaties for the avoidance of double taxation, and the tax information exchange agreements.

Panama does not currently participate in the International Compliance Assurance Programme, nor in any initiative that co-ordinates joint or simultaneous tax audits.

## 8. Mutual Agreement Procedures and Arbitration

### 8.1 Availability and Legal Basis

Panama's double tax treaties include provisions for Mutual Agreement Procedures (MAPs), allowing taxpayers to resolve issues of double taxation or treaty interpretation with the competent authorities of the treaty partners. However, Panama has not established a formal, standalone MAP programme. MAPs are handled on a case-by-case basis through the competent authority mechanism provided in each treaty.

## 8.2 Application Deadlines

Most of Panama's double tax treaties containing a MAP clause establish a three-year period from the date of the action giving rise to the dispute to file a MAP request with the Panamanian Tax Authority.

## 8.3 Mandatory Binding Arbitration

While Panama has a functioning MAP process under its double tax treaties, mandatory binding arbitration is not generally available in Panama's tax treaty network.

## 9. Dispute Prevention

### 9.1 Advance Pricing Agreements

At the time of writing, Panama has not enacted an advance pricing agreement programme.

### 9.2 Other Mechanisms

Since 2024, responses to tax inquiries made by individuals or companies to the Panamanian Tax Authority will be binding only for the tax administration, and only to the extent that they are favourable to the taxpayer making the request. This binding effect is limited to the specific case under consultation and does not extend to future transactions or events that occur after the inquiry.

## Trends and Developments

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### Myths and Facts About Panamanian Tax Residence Certificates

#### *Panamanian tax residence explained: what the law really says and how to secure your certificate*

For decades, Panama has strategically positioned itself as an international services hub, drawing entrepreneurs, multinational corporations, global investors and nomads seeking stability, connectivity and a business-friendly environment at the crossroads of the Americas. In light of this, one of the most discussed – and often misunderstood – topics in this context is tax residence and, more specifically, the Panamanian Tax Residence Certificate.

To properly understand how to obtain a Tax Residence Certificate in Panama, it is essential to begin with the foundations of the Panamanian tax system and to clearly distinguish between tax liability and tax residence – two concepts that are related in many jurisdictions, but not necessarily here.

#### *Panama's territorial tax system*

The Panamanian tax system is based, generally, on the principle of fiscal territoriality. According to this principle, the sole focus of Panamanian income tax is to tax income that, according to the law, is considered as Panamanian-source income – ie, the income produced within the territory of the Republic of Panama, regardless of the place where the income is received.

It is an objective system under which considerations of the nationality, domicile and residence of individuals are irrelevant. Hence, the Panamanian tax system will be applicable to “taxpayers” indistinctly – ie,

Panamanians and foreigners – if they derive income considered as Panamanian source-income.

Generally speaking, and except for specific regimes, the following applies under current legislation:

- both individuals and legal entities are generally subject to income tax only if they generate Panamanian-source income; and
- foreign-source income is not taxable in Panama, even if received by a Panamanian resident.

This distinction is fundamental. In many jurisdictions that apply a worldwide taxation system, tax residents are subject to income tax on their global earnings, regardless of where that income is generated. Simply being classified as a resident is enough to trigger taxation on worldwide income.

The Republic of Panama, however, takes a markedly different approach. Its tax system is rooted in territoriality, meaning that taxation is tied to the source of the income, not merely to the status of residence. In practical terms, unless a person (individual or corporation) generates income that qualifies as Panamanian-source under domestic law, that person will not be subject to Panamanian income tax, nor to the related formal filing obligations, even if considered a tax resident.

#### *Tax liability, tax residence and immigration residence: three different concepts*

A frequent misunderstanding is the belief that paying income tax automatically confers tax residence, or that holding permanent immigration status (immi-

gration residence) in Panama is enough to qualify as a tax resident. In Panama, each concept is governed by distinct legal criteria, and confusing them may lead to serious compliance and tax planning errors. In that sense, it is worth noting that it is entirely possible to:

- be a Panamanian tax resident and not be required to pay income tax (because no Panamanian-source income is generated); or
- generate Panamanian-source income and pay taxes without necessarily meeting all criteria for tax residence, as will be reviewed later on.

Tax residency in Panama is a legal status with specific purposes, especially in the international context and as it pertains to double taxation treaties.

However, a Panamanian Tax Residence Certificate is not only for treaties; the Panamanian Tax Authority can currently issue residence certificates even if a person or corporation is not claiming treaty benefits. Many people and companies use it to show foreign tax authorities, banks or other institutions that they are officially recognised as Panamanian tax residents.

With global transparency and stricter compliance rules, this certificate has become an important document for banking, investments and international tax matters.

### *The legal definition of tax residence in Panama*

Panama did not formally define the concept of tax residence until mid-2012. The definition became necessary as part of the country's broader strategy to expand international services and enter into agreements for the avoidance of double taxation with several countries.

Double tax treaties require clear definitions of tax residence in order to allocate taxing rights between jurisdictions. As Panama entered into multiple treaties, it became essential to establish a domestic rule clarifying who effectively qualifies as a Panamanian tax resident.

### *Why is tax residence so important?*

Understanding the distinction between tax residence and tax liability is crucial because the Tax Residence

Certificate plays a key role internationally. It serves primarily to:

- confirm eligibility to apply the benefits of a double taxation avoidance agreement;
- demonstrate that the individual or company has sufficient nexus with Panama to be considered a tax resident; and
- potentially limit another country's ability to tax certain income, depending on treaty provisions and internal regulations.

In recent years, the Tax Residence Certificate has become one of the most sought-after documents in cross-border structuring.

For individuals and corporations coming from worldwide taxation systems, proving tax residence in Panama can be particularly relevant. In such jurisdictions, authorities may attempt to tax global income unless the taxpayer can demonstrate that tax residence has been legitimately transferred elsewhere.

### *The reality: obtaining a Panamanian Tax Residence Certificate is not automatic*

From an outside perspective, many assume that the process for procuring a Tax Residence Certificate is straightforward. This may be true for other jurisdictions, but it is not particularly the case for the Republic of Panama. In that sense, individuals and corporations often encounter situations in which they thought that would automatically be eligible for a Panamanian Tax Residence Certificate, such as:

- “if I pay income tax, I am automatically a tax resident”; or
- “if I have permanent immigration status in Panama, I am automatically a tax resident”.

In practice, this could not be further from reality.

In Panama, Tax Residence Certificates are granted only after a detailed and often thorough administrative process, in which the applicant must demonstrate genuine and sufficient ties to the country. The applicant must submit a formal request to the Panamanian Tax Authority, accompanied by sufficient documentation (evidence) that confirms its status as a Panama-

nian tax resident. The authority responsible for issuing these certificates is the *Dirección General de Ingresos* (DGI), which operates under the Ministry of Economy and Finance of the Republic of Panama.

The process for issuing a Tax Residence Certificate may take months, and requires substantial documentary support, as previously mentioned. In that sense, advice regarding the issuance of a Panamanian Tax Residence Certificate is often met with a reality check. Clients must carefully organise and structure their affairs to ensure that, by the time the certificate is issued, it fully meets the requirements and expectations of foreign authorities, financial institutions or international partners.

It is not just a formality. The timing, documentation and demonstration of genuine ties to Panama are critical for the certificate to serve its intended international purpose.

Furthermore, it is important to note that Tax Residence Certificates are valid only for the fiscal year for which they are issued. If an individual or entity requires a certificate for a different fiscal period, proof of tax residence must be submitted again, accompanied by a formal request, specifically for that period.

### *Tax residence for legal entities*

For corporations, whether incorporated in Panama or properly registered as foreign entities before the Panamanian Public Registry, obtaining a Tax Residence Certificate requires demonstrating that the entity's effective management and administration are conducted within Panamanian territory.

This has the following meaning, in practical terms.

- Board of directors meetings in Panama: the company's board of directors must hold meetings in Panama to evidence that strategic decisions are made locally. This supports the argument that the entity's place of effective management is in Panama.
- Real commercial or support activities: the company must conduct commercial operations or provide services to affiliated or third parties. Merely existing on paper is insufficient.

- Personnel: the company must maintain hired personnel in Panama to support its operations.
- Physical office space: the company must have a physical office in Panama from which its employees conduct their day-to-day activities.

Only when these elements are satisfied will the tax authority consider issuing a Tax Residence Certificate.

It is important to clarify that conducting activities in Panama does not automatically imply paying income tax in Panama. Under Panamanian law, certain structures – such as offshore corporations or Panamanian holding companies – may have a physical presence in Panama without generating taxable Panamanian-source income, depending on how their activities are structured.

### *Tax residence for individuals*

For individuals, the analysis differs and often becomes more complex. To obtain a Tax Residence Certificate, an individual must demonstrate the following.

- Physical presence: spending 183 days or more in Panama, consecutive or non-consecutive, within a given fiscal year (January to December) will automatically qualify an individual as a tax resident. Moreover, if the individual exceeds the 183-day threshold in a particular fiscal year, they will also be considered a tax resident for the following fiscal year.
- Permanent home: maintaining a permanent home in Panama, either owned or leased.
- Economic and/or family ties: establishing substantial economic or family connections within the country.

It is worth mentioning that even individuals who do not strictly meet the 183-day requirement may qualify for a Tax Residence Certificate if they can demonstrate sufficient personal, economic and residential ties to the Republic of Panama.

### *Increased scrutiny in recent years*

Due to global transparency standards and information exchange agreements, the Panamanian Tax Authority has increased scrutiny over its tax residence applications.

For individuals, it has become increasingly important to show that they have not spent more than 183 days in any other jurisdiction, particularly in their country of nationality. This helps establish that Panama is their primary tax residence and avoids conflicts with foreign tax authorities who may otherwise claim taxing rights based on physical presence or citizenship.

Globally, individuals often maintain homes, investments and family ties across multiple countries. As a result, proving exclusive or primary tax residence in Panama may require detailed evidence, including:

- immigration records;
- utility bills and lease agreements;
- employment or business documentation, or investments;
- evidence of local economic activity; or
- proof of family relocation, or any family ties in the Republic of Panama.

The burden of proof will always lie with the applicant.

### *Final thoughts*

The Panamanian Tax Residence Certificate is not merely a document – it is a legal status backed by substance requirements and administrative review.

As international tax compliance standards tighten and cross-border information exchange becomes the norm, superficial structures are no longer sufficient.

Whether for individuals seeking relocation or corporations designing international structures, careful planning and proper documentation are essential. Understanding what Panamanian law truly establishes and what is required in practice is the first and most important step toward successfully obtaining tax resident status in Panama.

### *General conclusions*

- Panama operates under a territorial tax system. Generally, only Panamanian-source income is taxed.
- Tax residence, tax liability and immigration residence are separate legal concepts.
- Tax residence was formally defined in 2012, due to Panama's expansion of double taxation treaties.
- A Tax Residence Certificate is primarily an international instrument used to access treaty benefits and establish fiscal nexus.
- Obtaining the certificate is neither automatic nor immediate.
- Both individuals and corporations must demonstrate genuine, substantive ties to Panama.

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