

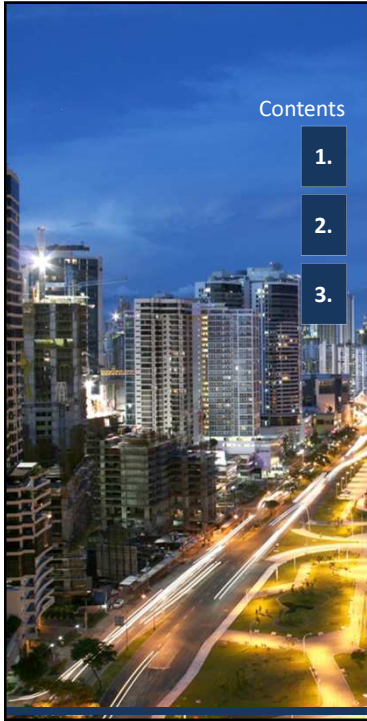


# Taxation of Services in Panama

## Domestic and Tax Treaty Treatment

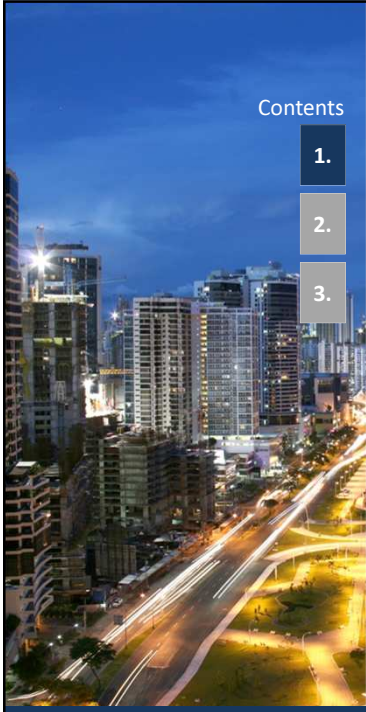
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## 1. Overview of the Panamanian Tax System



- Article 694 of the Panamanian Fiscal Code states that the object of Income Tax is *“the taxable income that is produced, from any source, within the territory of the Republic of Panama whichever may be the place where it is perceived”*
- Panama’s tax system is territorial, although it does have some exceptions, where income not physically generated within Panama is considered to be Panamanian source income and therefore, subject to Income Tax.
- Income from foreign sources is not subject to Income Tax, whether arising from active business or passive income.
- Some streams of Panamanian source income are expressly exempt from Income Tax, whether in the Fiscal Code or in special laws.

## 1. Overview of the Panamanian Tax System



- Corporate Income Tax is levied at a rate of 25%
- Individual Income Tax is levied at the following progressive rate:
  - US\$0.00 – US\$11,000.00 : 0%
  - US\$11,000.01 – US\$50,000.00: 15%
  - Over US\$50,000.00: 25%
- Dividends are taxed at either 10% (from Panamanian source) or 5% (from foreign source)
- ITBMS (VAT) is levied at a rate of 7%

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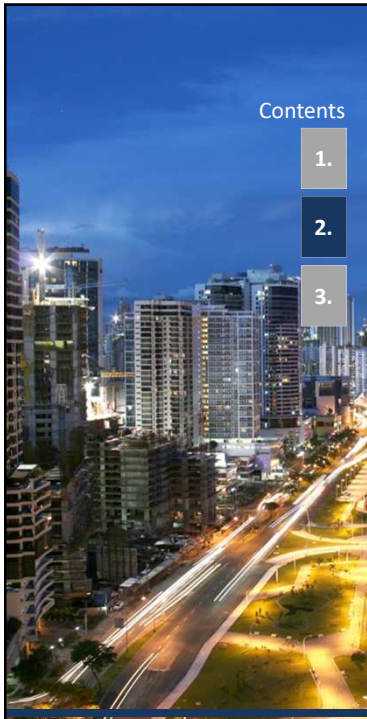
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## 2. Taxation of Services Under Domestic Law

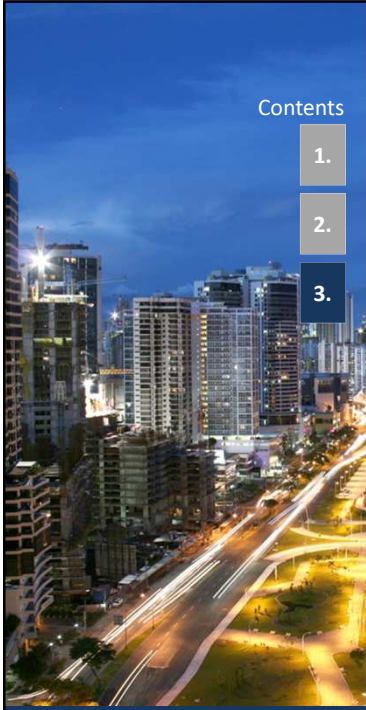


- Services provided in Panama by non-residents are taxable, since they generate Panamanian source income.
- Paragraph 1.e of Article 694 of the Fiscal Code, however, classifies as Panamanian source income “that which is received by individuals or legal persons whose domicile is outside the Republic of Panama product of any service or act, documented or not, that benefits individuals or legal persons, national or foreign, located within the Republic of Panama [...] to the extent that such services impact the production of Panamanian source income or the conservation thereof and that their payment has been considered as a deductible expense by the person receiving them...”
- The scope of the abovementioned article includes but is not limited to professional fees and income from copyrights, royalties, goodwill, trademarks, patents, know-how, technologic or scientific knowledge and industrial or commercial secrets.

## 2. Taxation of Services Under Domestic Law



- A recent amendment to the quoted Paragraph added the following:  
“Nonetheless, all Panamanian source income, paid or credited by Public Law entities, whether they are from the Central Government, autonomous or semi-autonomous entities, local governments, State enterprises or corporations in which the State is the owner of 51% or more of its shares, entities which are not Income Tax payers and/or taxpayers who are in a loss position, to an individual or legal person not resident in the Republic of Panama, is object of the tax and consequently subject to the withholding this provision deals with”.
- Based on all of the foregoing, payments made from Panama to service providers abroad are subject to Income Tax withholding at the source.
- Ordinary tax rates are applied to 50% of the remitted amount.



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### 3. Taxation of Services in Tax Treaties



- In most of Panama's tax treaties, services provided by a resident of the treaty partner may only be taxed by Panama when said person has a PE in Panama. This principle is followed by Panama's treaties with the Czech Republic, France, Ireland, Israel Luxembourg, the Netherlands, Singapore, South Korea, United Kingdom.
- The following treaties, however, contemplate a specific clause for services:
  - Barbados
  - Mexico
  - Portugal
  - Qatar
  - Spain
  - United Arab Emirates

### 3. Taxation of Services in Tax Treaties



- Barbados:
  - Services may be taxed by the Contracting State in which they are rendered, without a PE being triggered, as long as such services qualify as professional services, consulting services, industrial commercial advice, technical or management services or similar services.
  - If the services are not rendered in either Contracting State but are paid by a resident of one of them, they may be taxed by that State.
  - Max. rate of 7.5%.
- Mexico:
  - Services rendered in the other State may be taxed there if there is a presence of more than 60 days.
  - Max. rate of 12.5%.
  - A service PE would be triggered once the presence in the other State exceeds 183 days.

### 3. Taxation of Services in Tax Treaties



- Portugal:
  - Services may be taxed in the State where they are rendered, to the extent that such services qualify as professional services, consulting services, industrial or commercial advice, technical or management services or similar services.
  - Max. rate of 10%
- Qatar:
  - If the service provider has a fixed base in the other State, income attributable to it may be taxed.
  - If the service provider is present for more than 90 days in the other State, in a 12 month period commencing or ending in a given taxable year, income derived from activities in that other State may be taxed there.

### 3. Taxation of Services in Tax Treaties



- Spain:
  - Professional services, consulting services, industrial or commercial advisory, technical or management services or similar services, when carried out by a resident of one Contracting State in the other Contracting State, may be taxed in the other State.
- United Arab Emirates:
  - If a provider of professional services or other activities of an independent character has a fixed base in the other Contracting State, income attributable to it may be taxed in that other State.
  - If the service provider is present in the other State for more than 90 days in any 12 month period beginning or ending in a taxable year, income derived from such activities may be taxed in that other State.



*Thank you!*



**mef**  
Ministerio de Economía y Finanzas



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