

How to incorporate a company in Panama?

Incorporating a company can be a useful tool for any investor. Below we explain the steps to follow for company incorporation in Panama.

Incorporating a company in Panama is very simple. Below, we list the steps to be followed when incorporating a company in Panama to be used for local or foreign operations, or for investments.

First, it is important to define what type of company will be used. In Panama there are two main types of corporations that are most commonly used for business and investments: the Panama corporation (sociedad anónima) and the limited liability company (sociedad de responsabilidad limitada).

Both types of corporations have similar tax treatment in Panama, have no minimum or maximum capital requirements, and are flexible structures. The main difference between the two is that the identity of the shareholders of a corporation does not appear in Panama's Public Registry. In addition, Panama corporations can have a minimum of one shareholder. On the other hand, a limited liability company must have a minimum of two "quotaholders," and their names and percentages of participation must be listed in the company's articles of incorporation, which are registered in the Public Registry.



Incorporation Requirements

For the creation of the company in Panama the following must be taken into account:

- 1. Designation of resident agent.** By law, every Panamanian company must have a resident agent. This is the lawyer or lawfirm that will incorporate the company.
- 2. Company name.** One must verify the availability of the desired name at the Public Registry office. The name should end with one of the following suffixes in the case of a corporation: S.A., Inc. or Corp; or with S. de R.L., in the case of a limited liability company.
- 3. Designation of authorized capital.** For example, the corporation may have an authorized capital of US\$10,000.00 divided into 10,000 shares with a par value of US\$1.00 each.
- 4. Purpose of the company.** The articles of incorporation must include the purpose of the company, which can be a broad and general purpose, or a specific one, according to the activities that the corporation will perform.

5. Designation of the shareholders or quotaholders of the company. As we mentioned, in the case of the corporation it can have a minimum of one shareholder, and in the case of the limited liability company it must have a minimum of two quotaholders.

6. The names and addresses of the persons who will act as directors and officers of the corporation. Panamanian law requires that the Board of Directors be composed of a minimum of three directors in the case of a corporation. In the case of the liability company, it can have a minimum of one director or “administrator,” which is the term used for the directors of these types of companies.

7. Documentation required by the resident agent's compliance department. Typically, an incorporation form must be filled out, and a photocopy of the passport of the shareholders/quotaholders, a letter of reference from a bank, lawyer or accountant regarding the shareholders/quotaholders, and proof of address must be submitted to the compliance officer.

Once the due diligence documentation is received, the timeframe for incorporation ranges from 3 to 5 business days.

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Additional formalities and costs

If the company is created to operate in Panama, it must have an Operations Permit issued by the Ministry of Commerce and Industries.

To obtain the license the following is required:

- Commercial name (if different from the corporate name).
- RUC number.
- Identification of the members of the board of directors/administrators.
- Identification, address, telephone and email of the legal representative.
- Location, telephone number and e-mail of the business establishment.
- Number of people who will work in the company.
- Date of commencement of operations.
- Estimated amount of the investment.

Additionally, it is necessary to register the company in the Municipality of Panama, for which it is necessary to present the following documents:

- Copy of the company's articles of incorporation.
- Original Public Registry Certificate of the company.
- Copy of the legal representative's identity card.
- Sketch of the location of the commercial establishment.
- Petition signed by the Legal Representative of the company requesting the registration of the company in the Municipality of Panama.
- Operations Permit of the company.

Once these steps are completed, you must register your company with the Ministry of Economy and Finance, for which only a copy of the company's Articles of Incorporation is required.

Obligations and Taxes

Every company operating in Panama is obligated to pay income tax on income generated in Panama.

The general income tax rate for corporations is 25%, calculated based on the net taxable income resulting from deducting from the income the costs and expenses incurred by the company in the fiscal year. This payment must be paid in March of each year, for which the company

is required to file the income tax return on March 31, with the option of a 30-day extension.

In the income tax return, the company will pay the Operations Permit tax which corresponds to 2% of the patrimony subject to this tax, which is composed of the shares and assets, minus some liabilities. The minimum will be US\$100.00 per year and the maximum US\$60,000.00.

Obtaining the Operations Permit also entails a series of municipal obligations. The monthly municipal tax is determined by the Municipality according to the activity of the company.

According to Law 52 of 2016, as amended by Law 254 of 2021, all Panamanian companies must have accounting records that are available to the tax authority if necessary. The information contained in the income tax return is typically derived from these records. In the case of companies that are incorporated in Panama but do not operate in Panama, such companies must send a copy of their accounting records to the Resident Agent by April 30 of each year.

In addition to the income tax and the Operations Permit tax, corporations that generate more than US\$36,000.00 annually, will be considered taxpayers of the ITBMS (VAT), which is declared and paid monthly through a special form, at a general rate of 7%.

The creation of a company involves multiple steps. However, with the proper advice of a professional law firm, incorporating your company in Panama is a simple and expeditious process.

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