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Panama Amends Multinational Headquarters Law



By means of Law 57 of October 24th of 2018, the Multinational Headquarters regime has been amended with the intention of satisfying the new global criteria for international corporate global operations and to avoid unfair competition.

New Changes

1. There are new additional services that a licensed multinational office can perform under the Multinational Headquarters regime, such as:

Financial assistance
Technical assistance
Management
Financial management support
Risk assessment
Credit analysis
Due diligence
Custody of documents
Data processing
Corporate treasury

2- Insurance, securities and banking entities are required to perform a formal consultation with regulators before applying for a Multinational Headquarters license.

3- Multinational Headquarters licensed entities are required to hire a full-time staff in accordance to the company's size of operations as well as to declare local operation expenses.

4- Tax Regime modification

a- As of January 1, 2019, a licensed Multinational office is now required to pay a reduced rate of 5% income tax in regards to the taxable income for services provided by the company. Nevertheless, even with a new reduced income tax rate there are special tax deductions to apply, such as:

All Labor costs will be subject to tax deduction including the employees with special income tax benefit
Income tax fiscal credits in regards all the payments performed to nonresident parties as well as to income tax withhold applied by local vendors.

Regardless of the listed fiscal credits, a licensed multinational office is bound to at least contribute with a minimum of 2% of the taxable income which by no means such fiscal credits can be considered as accrued credits for the next fiscal period nor can be considered for its reimbursement.

b- Local vendors are bound to withhold a 5% of any payment to be performed to a licensed multinational office for any services rendered, if such service contributes with local income generation and its amount has been claimed as a deductible expense by the entity who received the service.

c- A withholding tax of 2.5% will apply for foreign remittance payments from services performed by a nonresident party, if such service contributes with local income generation and its amount has been claimed as a deductible expense by the entity who received the service.

d- As of 2019, a transfer pricing regime will apply for related parties performing operations with a licensed multinational office. This regime will also apply for operations performed with other related parties located within the Panamanian fiscal territory and/or with other related parties registered in a Free Trade zones or special trading zones in Panama.

e- A licensed multinational office will be subject to capital gains tax related to profits or losses regarding the transfer of securities with a fix rate of 2%. Nevertheless, the purchaser of such securities is bound to withhold a 1% as an advanced payment of the applicable capital gain tax. The seller may consider such percentage as the definitive capital gain to be paid.

f. Foreign employees working on a licensed multinational office that become permanent residents of the Republic of Panama will be subject to income tax and social security payments.

5- Licensed Multinational offices are covered under the "Legal Stability to Investment legislation".

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