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## Panama Pacific Law Changes



By means of Law 66 of December 13th, 2018 the Panama Pacific law has been amended with the intention of satisfying the international taxation criteria.

### New Changes

a. The new law eliminates some of the authorized activities under the regime of Panama Pacific, such as:

Provision of services to any natural person or corporate entity out of the Panamanian territory  
Re-invoicing of goods that do not enter the Panamanian territory  
Provision of high added value services protected under industrial property standards

a.1. The activity of “provision of services to any natural or corporate entity out of the Panamanian territory” has been replaced with the activity of “Back Office Services” which includes without limitation the following activities:

Management, administration and/or business support  
Strategic planning services  
Business development  
Staff management and/or training  
Operation control and/or logistics  
Technical assistance  
Tech support (market logistics)  
Management or administration (finance, treasurer and accounting)

a.2 Preexistent companies with more than 10 years’ operating with an authorize license for the Provision of Services to any natural or corporate entity out of the Panamanian territory will be entitled to adjust their license for “Back Office Services”

a.3 Companies with less than 10 years of operation prior to January 1, 2019 will have to options:

Request Panama Pacific authority to eliminate the activity in their license, or  
Modify the license in accordance to rule stated on the law.

### b. Tax Regime modification

#### b.1. Income tax

The “Back Office Services” will taxed with reduced rate of 5% for all taxable income.

This will include services provided within and out of the Panamanian territory.

A fiscal credit to the income tax can be applied for all taxable income generated form services performed to related parties located out of Panama

The natural person or corporate entity that has received benefits from services provided by a Panama Pacific entity must withhold a 5% of remittance income tax as long such services has direct impact in the generation of the income and considered as deductible expense by the person who received. In these cases, if a fiscal credit applies, then the income tax rate to be paid cannot be less than 2% of the net income generated in the Republic of Panama.

#### b.2. VAT

VAT exemption will apply again for all services rendered by a Panama Pacific license companies to persons established within or out of the Republic of Panama.

c. New requirements for tax benefits related to the activities of:

Multimodal and Logistics Services  
Back Office services  
Call Center Services and data processing services

The new requirements are:

Company must maintain an enough full-time qualified employees within their operation.

Company must incur in correct operation expenses in Panama

Fulfill the following criteria.

Providing an affidavit duly signed by the legal representative or accountant stating the activities to be performed by the company and which of them are performed in Panama

Detail of operational expenses in Panama

List of workers that are working as full-time employees

Audited Financial Statements

Any other information required by the Panama Pacific Agency

#### c.1. Enforceability

Companies registered before October 17, 2017 will have until July 1st, 2021 in order to comply with the new requirements. Any other companies will must start to comply with the reports as of January 1st, 2019.