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Disclaimer

This booklet is made available by Pardini & Asociados for educational purposes only as well as to give you general information and a general understanding of the law, not to provide specific legal advice. This booklet should not be used as a substitute for competent legal advice. If you have any specific questions about any legal matter, contact us.



1. Corporate Services Overview

Pardini & Asociados's mission is to provide corporate services to our clients at an efficient level and on a global context, assisting them to achieve their business and financial objectives.

In this respect, our services cover the complete corporate range which is normally required by international business entities in order to satisfy their statutory obligations and to carry on their business in an efficient way in accordance with their priorities.

Our customers, who may include law firms, banks, trusts companies, businesses, entrepreneurs, private individuals, expatriates and their families, or corporations ranging from small private companies to large international groups, can make use of our specialized services which suit their particular needs.

The realization of the group structure often requires our assistance in setting up offices, or the provision of virtual office facilities, opening of bank accounts with reputable banks and liaising with them for relevant banking services. The process may involve the raising of finance and the acquisition of properties for business or residential purposes. As an alternative, clients may prefer to use, either on a temporary or on a more permanent basis, our own office and business meetings facilities.

Once the group structure has been formed, we may continue our assistance by providing domiciliation and nominee services, company secretarial, management and business administration services.

In conclusion, Pardini & Asociados is a **"One Stop Shop"** where clients may receive the full range of services, giving a Complete Solution for all their needs.

2. Incorporation of IBC's.

2.1- Introduction

The following applies only to Panama, BVI, Belize, Seychelles and Cyprus; all other jurisdictions have different procedures.

The whole process can be completed from overseas. The usual procedure is that our group, acting according to the information furnished by the client in the Incorporation Form sent by Fax or email, will organize the corporation using standard articles of incorporation. For Panama, the incorporation procedure normally takes within 5 to 7 days, BVI from 5 to 10 days, Belize and Seychelles from 12 to 15 days. All pertinent documents will be sent by courier to the address provided by the client, unless instructed otherwise. For immediate delivery, we also have Shelf or Ready Made Companies.

By Laws

A corporation may adopt by-laws for the regulation of its internal affairs and procedures, but it is not compulsory. Should by-laws be in fact adopted, however, it is not compulsory that they be registered, but if they are registered, any amendments thereof must also be registered. By-laws may be adopted either by resolution of the shareholders or by resolution of the Board of Directors. Consequently, the by-laws may be amended by the corporate body which initially adopted them.

General Power of Attorney

The Board of Directors may grant a general power of attorney to any person, whether or not connected with the corporation. When said power of attorney is granted to be used abroad, it is possible not to register said power of attorney to maintain the confidentiality.

Resident Agent

By law every corporation must have resident or registered agent. Our fee for acting as resident agent is satisfactory. However, the first year of the resident agent's fee is also included in the cost of incorporation.

All annual fees and taxes must be paid promptly every year to maintain the company in good standing. Late payment will produce high penalties and strike off from the Register.

Annual Franchise Tax

Every Panamanian, BVI, Belizean or Seychelles corporation has to pay an annual tax, imposed by law. The law requires corporations to pay said amount in order to remain in good standing. Good standing is taken to mean valid registration at the Public Registry of Panama.

All annual fees and taxes must be paid promptly every year to maintain the company in good standing. Late payment will produce high penalties and strike off from the Register.

An additional penalty caused by non-payment is that documents subject to registration will not be recorded nor will any certification of good standing or others be issued, except when requested by a competent authority.

Taxation

The income tax of Panama, BVI, Belize or Seychelles is levied only upon net income derived from operations within the territory of the respective country. Income obtained from operations consummated outside of these jurisdictions is not income obtained from "sources within the jurisdiction" and, therefore, is not taxable under local Law.

While not providing any specific legal or tax counsel, nevertheless for some individuals or companies, offshore companies may offer specific tax advantages over other jurisdictions. Any potential client seeking legal or tax advice should consult with their individual legal or tax advisor.

2.2 - Advantages of IBC's

- No restrictions on nationality.
- No requirements to disclose ownership.
- No restrictions on foreign owned corporations.
- No restrictions concerning ownership of shares.
- No residence requirements for Directors/Officers.
- No paid-in capital requirements.
- No income tax is paid or reported if the corporation operate outside the jurisdiction.
- No exchange controls.
- No restrictions on Mergers, Acquisitions or Joint Ventures.
- No requirements to file annual Financial Statements.
- No requirement to held annual General Meetings of Shareholders or Directors.
- Total Secrecy and Anonymity.
- Total tax exemption on all and any business activity or transaction carried on outside the jurisdiction.

■ By law every corporation must have resident or registered agent.



We offer innovative legal solutions
to achieve your goals.

CORPORATE LAW
FOREIGN INVESTMENTS
TRANSACTIONAL

AVIATION & MARITIME
IP LAW
HOTELS & RESORTS

INTERNATIONAL PRACTICE
ENERGY, MINING & PETROLUM
COMMERCIAL LAW

PRIVATE CLIENT
BANKING & SECURITIES
IMMIGRATION LAW

PANAMA MEANS BUSINESS

- Total business privacy.
- Registration takes between 10-20 days depending on the jurisdiction and “shelf companies” are readily available.
- Reasonable Annual Registration Tax and Resident Agent Fees.
- Articles of Incorporation may be done in any part of the world in any language.
- The accounting books for the corporation could be kept in any part of the world and in any language.
- Amendments can be made to the incorporation documents upon the needs of the corporation.
- Established base of bilingual accountants and lawyers specialized in banking, corporate and trust services.
- Political stability due to constitutional elected government.
- Flexible corporate laws permitting foreign corporations to rotate there domicile or seat between Panama, BVI, Seychelles and other locations.
- While not providing any specific legal or tax counsel, nevertheless for some individuals or companies, offshore companies may offer specific tax advantages over other jurisdictions. Any potential client seeking legal or tax advice should consult with their individual legal or tax advisor.

2.3- Practical Forms of using IBCs

Offshore companies formed in Panama, BVI, Belize or Seychelles are useful for several main purposes:

Investment Holding Corporation

Both corporations and individuals make substantial use of offshore companies as vehicles to protect and hold investment portfolios. Such portfolios may consist of stocks, bonds, cash, and other investments. Cash assets held by offshore companies may earn deposit interests free of tax.

Personal offshore holding companies are often used by high net worth individuals to hold investments made in different markets and countries. Personal holding companies also provide the confidentiality required by the sophisticated investors; while at the same time, saving in professional and other fees associated with other structures. In such a structure, tax is not payable on income generated from the investment holding company's assets, thereby increasing the amount available for other purposes.



Finance Corporation

Offshore finance companies can be established to fulfil a personal or corporate group treasury management function. Interest payments from group companies to the offshore finance subsidiary may be subject to withholding taxes usually lower than corporate taxes levied otherwise. On the other hand, the interest paid would be a deductible cost, for taxation purposes, and so consolidating interest payments in the offshore finance company may provide a tax saving benefit.

Offshore finance companies are often utilized as part of structures for acquiring foreign entities, real estate and other investment related projects.

Other benefits of such a company to the multinational entrepreneur are:

- Protection of capital funds introduced from abroad to foster a self-owned project.
- Tax relief on the cost of borrowing the funds.
- Freedom to return interest on funds lent to the tax haven, so they can be reinvested at the best tax-free advantage.

Real Estate Holding Corporation

The ownership of overseas real estate and land by an offshore company can often create many tax advantages. Additionally, using a trust or a Panama Private Foundation to own the shares in the offshore company can give rise to additional tax advantages in the client's country of residence and simplifies procedures in the event of the client's death.

The main benefits are:

- Avoidance in most cases of local inheritance taxes on the property in the event of death of the beneficial owner.
- Avoidance in most cases of local succession laws which can, in certain countries, stipulate to whom the property must pass.
- Elimination in most cases of local transfer and capital gains taxes upon resale of the property.
- Exclusion of foreign exchange controls restrictions, in certain countries, in the event of the beneficial owner taking up residence in the property.
- Ease of transfer to heirs in the event of the beneficial owner's death.
- Confidentiality of ownership.

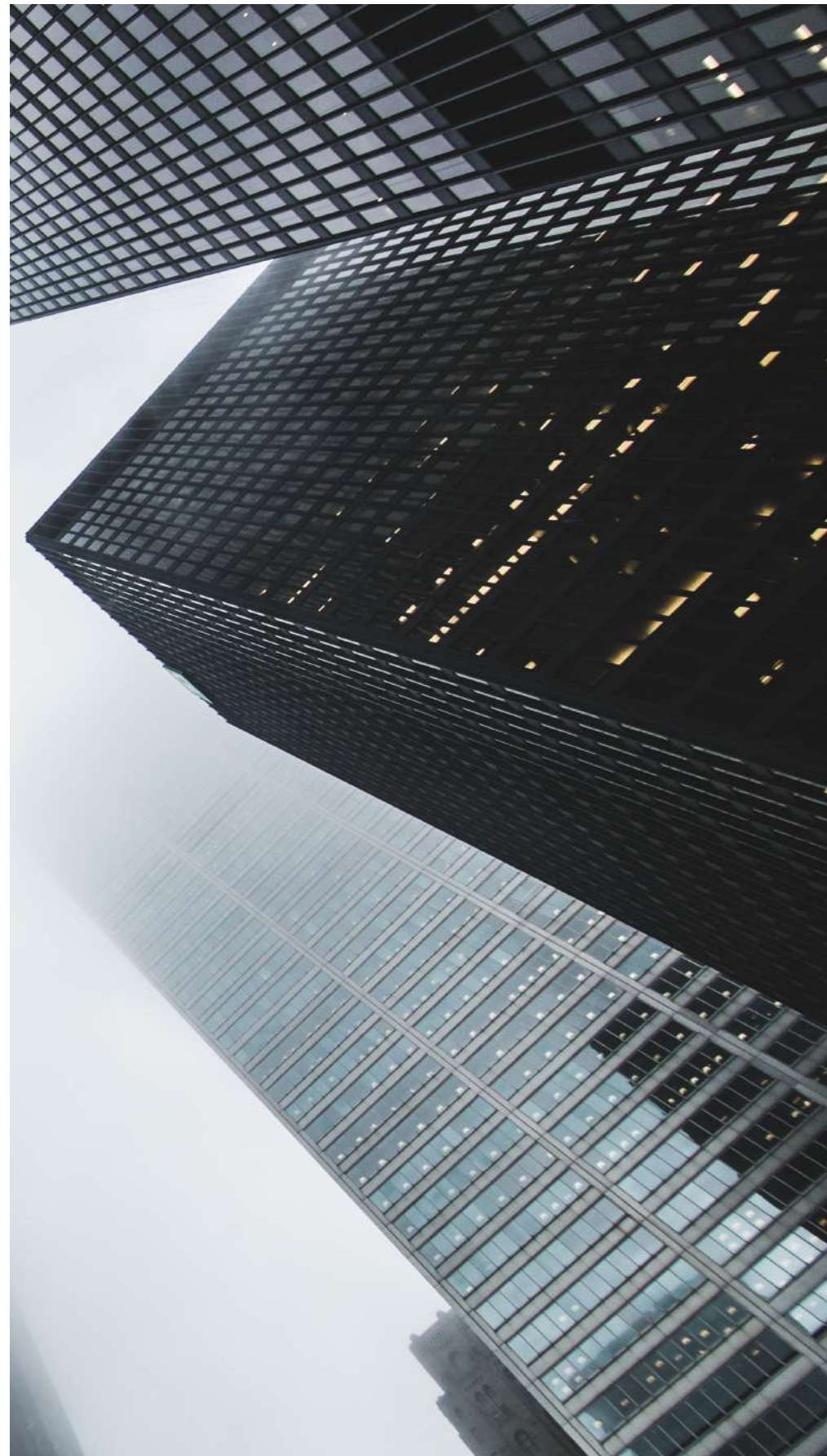
Trading Corporation

Offshore trading companies are a proven efficient vehicle to expatriate capital and eliminate exchange controls restrictions through over-invoicing or under invoicing export/import transactions.

If an offshore trading company were to procure products from one country, and then sell them to another country, the profits arising out of the transaction may be accumulated in the offshore company, free from taxation in the offshore centre.

Another common use of an offshore trading company is for bulk purchasing. Such a structure is typically established by a group of associated or unrelated companies to benefit from economies of scale and reduced administrative costs, plus significant tax savings.

Significant benefits achieved by this arrangement, include receipt of bulk buying discounts and accumulation in a tax-free area of the net mark-up on resales to the manufacturing units. Additionally, factoring trading debts of a company in a high tax jurisdiction through an offshore company established in a low tax jurisdiction may assist in transferring funds to the low tax jurisdiction.



Venture Capital Corporation

Offshore companies are regularly employed to raise venture capital through equity or debt issues in capital markets. Many corporations have sought to mitigate risk by accessing markets through offshore companies while at the same time reducing certain taxes.

This technique is a refinement of the offshore investment holding company. With prudent management, it can prove very profitable by itself, apart from accumulating tax-free profits.

Intellectual Property, Licensing or Franchising Corporation
Intellectual property, including computer software, technical know-how, patents, copyrights and trademarks can be owned by or assigned to an offshore company.

Upon the acquisition of rights, the offshore company can then enter into license or franchise agreements with companies interested in the exploitation of such rights around the world. The income arising from such arrangements can be accumulated offshore.

Plant Rental Corporation

If a company in a service industry operates affiliated companies in various countries, the formation and financing of an offshore company to acquire capital equipment used in its operations could prove beneficial. The equipment is rented to the affiliate at market rates, and net income is left to accumulate in the offshore company. Alternatively, it can be attractive for a company in a high tax area to purchase the capital equipment, claim the usual allowances, and lease the equipment to the offshore company at commercial rates. Hence, profits are generated, which are not liable to tax assessment, while rental payments in most cases are tax deductible in their countries of origin.

Shipping Corporation

An offshore corporation may own or charter ships, profits from which can be accumulated in tax-free area.

Personal Services Corporation

Many individuals engaged in the provision of professional services in the construction, engineering, aviation, finance, computer, film, and entertainment industries can achieve considerable tax saving benefits through the establishment of an offshore personal service company. The offshore company can contract to supply the services of the individual outside the country in which he/she is normally resident and the fees earned can accumulate offshore, free from taxation in the offshore centre. Payments to the individual can then be structured in such a way to minimize income tax.

Employment Corporation

Many companies utilize offshore companies for the employment of staff working on overseas assignments. This helps to reduce the costs associated with payroll and travel expense administration, and may provide a tax and social security saving benefit for the employees.

While not providing any specific legal or tax counsel, nevertheless for some individuals or companies, offshore companies may offer specific tax advantages over other jurisdictions. Any potential client seeking legal or tax advise should consult with their individual legal or tax advisor.

Our Affiliated Offshore Services Group currently assists selected clients with:

Management Services

- Corporate Services
- Administrative Services
- Accounting Services
- Banking Services
- Trust Services
- Import / Export Services

2.4- Frequently Asked Questions about Offshore Companies

This Q&A is limited to Panama, BVI, Belize and Seychelles. Other jurisdictions may have other issues. Offshore Corp. is used hereinafter to refer to a Panama, BVI, Belize or Seychelles company.

Questions	Answers
I. Advantages	Go to advantages
II. Incorporation	
2.1 What information is needed to form an Offshore Corp.?	Go to Incorporation Procedure and Incorporation Form .
2.2 Must the client come to our offices to form a Corp.?	No, we will incorporate the company within 10-15 days after receipt of the Incorporation Form and the Fees. Shelf companies are available for immediate delivery.
2.3 What is the minimum time within which your firm can form an Offshore Corp.?	After receipt of the complete Incorporation Form and the Fees, we will incorporate the company within 10-15 days thereafter. But we have shelf companies ready for immediate delivery.
2.4 Do you maintain Corporations on shelf?	Yes.
2.5 Can the corporate name end with Limited?	The name may be in any language, but it must terminate in a word or an abbreviation thereof, indicating that it is a corporation. The word Limited or Ltd., is fine for BVI or Belize, but for Panama, it must be borne in mind that the word “Limited” or its usual abbreviation “Ltd.” does not indicated a corporation in Panama, but rather a form of partnership. The name may terminate in “Corporation” or “Corp.”, “Incorporated” or “Inc.”, “Sociedad Anónima”, “Société Anonyme”, “S.A.” , “A.G.” or others. Words or expresiones in any language meaning “Bank”, “Trust”, “Fund” or suggesting that the corporation is such an institution may not be used without the permission of the Superintendency of Banks. However, expressions such as “Securities”, “Finance”, etc., are permitted.
2.6 Are there any restrictions to the objects and activities of an Offshore Corp.?	No, an Offshore Corp. may engage in any lawful business.
2.7 Must the names, addresses and nationalities of the beneficial or ultimate owners of an Offshore Corp. be disclosed to the local Government?	No.

III. Capital and Shares	
3.1 Is there any minimum amount of capital which must be paid-in before doing business?	No.
3.2 Can Offshore Corps. have no par value shares?	Yes.
3.3 Which is the minimum authorized capital to pay the minimum registration tax?	USD 10,000.00 for Panama, USD 5,000.00 for Seychelles, USD 50,000 for BVI/Belize or 500 no par value shares.
3.4 Can you have bearer shares on an Offshore Corp.?	Yes.
3.5 Can an Offshore Corp. have different classes of shares?	Yes, it may have preferred or non-preferred shares, convertibles shares or any other class provided for in the articles of incorporation.
IV. Shareholders	
4.1 Are there any restrictions on the number of shareholders?	No.
4.2 Must there be an Annual General shareholder's meeting?	No, unless there is such requirement in the articles.
4.3 Can share holders be represented by proxy?	Yes.
4.4 Can special shareholder's meeting be held outside the jurisdiction?	Yes.
4.5 Can notice of shareholder's meetings be waived?	Yes, before or after the meeting.
V. Directors	
5.1 Is there are minimum or maximum number of directors?	In Panama, there is a minimum of 3 directors and no maximum. In BVI/Belize, the nimum is 1 individual or corporation.
5.2 Must there be directors who reside in the jurisdiction?	No.
5.3 Must directors be locals?	No.
5.4 Must directors be shareholders?	No.

VI. Officers	
6.1 Are there any required officers?	A Panama Corp. should have at least a President, a Treasurer and a Secretary.
6.2 Must officers be directors or shareholders?	No.
6.3 Must officers be nationals or residents?	No.
6.4 Is it possible under Panama Law to have a corporate secretary rather than an individual?	Yes.
VII. Bank Accounts	
7.1 Can an Offshore Corp. have bank accounts abroad?	Yes.
7.2 Must there be a bank account in the jurisdiction?	No.
VIII. Financial Statement and Tax Returns	
8.1 Is an annual report required to be filed with the local Government?	No, if all income is from foreign source.
8.2 Must financial statements be filed in the jurisdiction?	No.
8.3 Must Offshore Corps. doing business abroad file annual tax returns locally?	No.
IX. Taxation	
9.1 Is there are annual tax payable by Offshore Corps.?	Yes, yearly. Panama: USD 300. BVI: 300. Belize USD 250. Seychelles USD 100
9.2 Is there a corporate income tax on income from operations abroad?	No.
9.3 Is there a capital gains tax from operations outside the jurisdiction?	No.
9.4 Is there a dividend tax from income derived from offshore operations?	No.

X. Miscellaneous	
10.1 Are there any exchange	No.
10.2 Is there any governmental authorization required to increase the corporate capital?	No.
10.3 Is it possible to perform services of process to the resident agent of an Offshore Corp.?	No, the resident agent is not empowered for such acts and he is not a legal representative of the corporation.

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Retirement in Panama?

Business Panama Group and Pardini & Associates provide advisory and assistance to foreign companies and individuals seeking to establish in Panama.

- Immigration + Residence
- Finding an Office, Home or Condo
- Tax Residence
- Incorporation Services
- Bank Account Opening
- Procurement of Government Licenses
- Set Up Business

The Original One Stop Shop



3. Incorporation of Foundations in Panama

3.1. Introduction

It well known within the offshore services industry that a major step forward was taken by the Principality of Liechtenstein with the adoption of the Law on Persons and Companies of January 20, 1926 which created the Family Foundations (for the private benefit of members of one or more families) and the Mixed Foundations (for the benefit not only of family members, but also of other persons or institutions). The family foundation as a legal entity also exist in Austria without much international recognition, however, due to the fact that this country is not deemed as an offshore centre. Additionally, there are the Luxembourg foundations with substantial differences to Liechtenstein and also of reduced international recognition.

The Republic of Panama inspired in the laws of Liechtenstein adapted the European model to create a Private Interest Foundation more modern and flexible, with clear advantages for the protection of assets and international tax planning and empowered to carry on transactions in an effective fashion. Pardini & Associates has prepared this document to assist our clients in the evaluation of alternatives offshore structures for the better planning of their assets, estate and business transactions.

3.2. Advantages

Significant advantages are offered by the Panama Private Interest Foundation. The following are some highlights:

- Total exemption of taxes in the Republic of Panama, including without limitation, income tax, wealth tax, real estate tax, inheritance tax, sales and transfer tax and others.
- Total confidentiality and anonymity. The law on Private Interest Foundations state that the Foundation Council, the protector and the resident agent and any persons or institutions which by reason of their function obtain information related to the activities, transactions or operations of the Private Interest Foundation shall at all times be obligated to maintain strict secrecy, even after its liquidation. Violation of this rule shall be fined with imprisonment of up to six months and penalties of up to USD 50,000 without limiting the respective civil liabilities arising therefrom.



- There is no legal requirement to disclose the name of the real founder, beneficiary or protector.
- There is no requirement to file any annual tax return or financial statement.
- There is no obligation to hold an annual meeting of the foundation council, the founders or the protectors.
- Fast incorporation.
- Simple administration and management procedures.
- Reasonable incorporation and maintenance fees.
- There is no legal requirement of maximum authorized capital.
- The payment of the foundation capital is not required for the incorporation of the foundation and there is no maximum time or deadline to make such contribution.
- There is no limitation in respect of perpetuities, accumulation of capitals and other restrictions which are required in similar structures in other jurisdictions, such as the anglosaxon or common law trust.
- The private interest foundation can engage in any business or civil transactions (only in exceptional cases) in part of the world and in any currency.
- The founders, members of the foundation council, beneficiaries and protectors may be individuals or corporations of any nationality.
- The members of the foundation council need not be founders.
- The founders, the protectors and the members of the foundation council may be beneficiaries of the foundation.
- There is no limitation on the maximum permitted number of founders, members of the foundation council, beneficiaries or protectors.
- The founders and the members of the foundation council may hold their meetings in any country and may be represented by proxy.
- The foundation books and accounting books may be maintained in Panama or abroad.
- The foundation charter can be signed by an attorney in fact or by a trustee without the need to disclose the name of the founder.
- Private Interest Foundations incorporated in other countries can be redomiciled or continue existing as Panama Private Interest Foundations and viceversa following a simple continuation procedure.

3.3 Differences Between Private Interest Foundations and Trusts

There are certain similarities between Private Interest Foundations and Trusts due the fact that the foundation council enjoys considerable decision and control powers over the foundation assets by reason of the lack of ownership of the foundation.



This fact creates a requirement of absolute confidence between the client and the foundation council, which is a fundamental similarity of the confidence between the client and the trust company. However, there are substantial distinctions between the Panama Private Interest Foundation and the Panama Trust:

- The trust is a legal act by means of which a person called the settlor transfer assets to a person called the trustee, who will manage or dispose of them in favor of a beneficiary, who can be the same settlor.
- The trustee is normally a firm or company engaged professionally and customarily in the business in managing properties, investing liquid assets and transferring assets which are legally under the ownership of said trustee, but subject to the provisions of the trust instrument. On the contrary, the registration of the foundation charter at the Public Registry of Panama grants independent legal personality to the Private Interest Foundation and, as a consequence, the foundation

can purchase and hold assets of any kind and can enter into any agreements. The foundation, different from the trust, is the owner of its own assets which are managed by the foundation council, which has the function to fulfill the objectives and purposes of the foundation.

- The use of the foundation as a structure or vehicle for the ownership of any movable or immovable assets is not applicable to trusts due to the fact that trusts per se do not form a legal entity different from the trustee. In order to transfer the authority of the settlor over the trustee and over the assets managed by the trustee, it is required to execute other formal documentation with the same requirements to that by means of which the settlor transferred the assets to the trustee.
- The control and administration of the assets given in trust is the power of the trustee. In the Private Interest Foundation, this power of control and administration is in the hands of the foundation council.

- The trust allows the appointment of one or more trustees without a minimum or maximum. The foundation council requires a minimum of three (3) individuals or one (1) corporate director.
- The trust law does not contain provisions for asset protection against future claims from creditors. The Private Interest Foundation legislation has very clear provisions limiting legal claims against the founder.
- The trust is used mainly to substitute wills and to execute commercial transactions such as purchases of real estate, opening an administration of bank accounts, investment in stock markets and mutual funds, and the entering into international agreements. On the contrary, the Private Interest Foundation is a discreet vehicle to open an operate bank accounts and are created principally for testamentary protection, to manage and administer the distribution of moneys and families properties, to act as philanthropic or ecclesiastic institutions, and to become holding entity that operate as owner of corporations.

3.4. Practical Uses Of Private Interest Foundations

- To protect family business providing continuity to second and third generations.
- To protect defenseless persons such as minors, disabled and persons incapable of managing their assets.
- To manage payments of money or the distribution of assets to members of the family or to provide for the education, housing, maintenance or profit sharing of members of the family.
- To carry on scientific, philanthropic, religious, humanitarian purposes, or to manage funds or assets for the benefit of these activities.
- To manage profit sharing as well as pension plans to employees.
- As a sophisticated and efficient substitute of the testament or will.
- As a holding of shares, participations or interests in private or public corporations.
- As a vehicle for the collection of royalties.
- As a vehicle to invest in shares, bonds, mutual funds, bank deposits or other assets.
- As a vehicle to own real estate or other assets of considerable value such as art works.
- As a vehicle to protect assets against excessive taxes, claims by creditors, political instability or forced heir ship.
- To operate bank accounts in any part of the world.

3.5. Formation Requirements for Panama Foundations

A Private Interest Foundation is established when a Charter of the Foundation has been drafted and filed at the Public Registry. This information, which must be officially registered in order to

establish a Foundation, is largely a matter of procedure and does not jeopardize privacy in any way.

The name may be in any language and must include the word “Foundation.” The objectives of the Foundation may include anything except the generation of profits. The Foundation Council is charged with task of administering the Foundation assets in a manner consistent with purpose of the Foundation as articulated in the Charter of the Foundation. The Foundation Council is composed of at least three natural persons, which may include the founder. These persons are not required to be Panamanian. The registered agent must be either a Panamanian lawyer or law firm.

A Private Interest Foundation also includes a body of Regulations, which are like by-laws. Unlike the Memorandum of Foundation, the Regulations remain private and confidential, they are not filed in any public registry. Therefore, it is within the Regulations that individuals typically articulate their wishes regarding beneficiaries and distribution of Foundation assets. Additionally, in this private document, a Protector may be named whose role is to oversee the activities of the Foundation Council. The Regulations may be amended at any time.

The range of benefits offered by a Foundation spans from tax advantages to asset protection. Foundations do not pay taxes on any income that is derived from investment activity outside of Panama. Assets used to fund the Foundation are considered under the law to be separate from the assets of the founder. Therefore these cannot be reached in the event of a lawsuit against the founder or beneficiaries. Similarly, these assets cannot be reached to satisfy debts owed by the founder or beneficiaries. Foundations only incur liability to the extent that they have dealt with a party directly. Therefore, if a Foundation conducts no activity beyond owning assets, it will never suffer liability of any kind.

A Foundation is established by a Founder, who may be one or more individuals or corporations. It may be created either directly or through a third party, such as a resident agent. The Foundation may be established during the Founder’s lifetime or post-mortem. It is legally established when a Charter of the Foundation (which may alternatively be referred to as a Memorandum or Deed) has been drafted and filed at the Public Registry. The items that must be filed include:

- Name and Purpose of the Foundation;
- Name of the Foundation Council Members;
- Address of the Foundation;
- Appointment of a Registered Agent; and
- Patrimony

The name may be in any language and must include the word “Foundation” to distinguish it from other kinds of juridical persons. The objectives of the Foundation may include anything except the generation of profits.

The Foundation Council must be comprised of three natural persons, or a single juridical person, and its duties are set forth in the Memorandum of Foundation. These persons are not required to be Panamanian. The Council is similar to the board of directors of a corporation. It makes all the decisions, for the benefit of the Foundation and is charged with the responsibility of ensuring that the Foundation’s purposes, as stated in the Memorandum of Foundation, are fulfilled. The council has the obligation to administer the Foundation’s assets for the benefit of the Beneficiaries, who have the right to object to the actions of the council. The Council must deliver to the beneficiaries the assets of funds to which they are entitled, as set forth in the Memorandum of Foundation.

PROTECTIONS

A nominee may fulfill the role of Founder. This makes it possible for the individual’s name not to appear in public record.

The Founder’s heirs do not have the right to revoke the creation of the Foundation, nor do they have the right to object the transfer of assets to the Foundation.

The Founder may retain control of the Foundation by retaining the power of appointment of the Foundation Council.

The assets of a Foundation comprise a separate and independent estate from that of the Founder. Once the assets have been transferred to the Foundation, such property does not belong to the Founder. Therefore said estate cannot be attached, seized or be subject to any lawsuit or legal actions as a result of obligations and liabilities of the Founder or the beneficiaries of the Foundation.

The creditors of a Founder have the right to contest the creation of a Foundation, or the transfer of assets to a Foundation, when either activity represents a fraud against their legitimate claims. The creditor’s right to contest the creation of a Foundation expires three years from the date that the Memorandum of Foundation is filed at the Public Registry.

The Founder may serve as a member of the Foundation Council, as a Beneficiary or as Protector.

The Founder has the power to remove council members, beneficiaries or a protector if he desires or he can assign these powers to another person in the Foundation.

Only the persons involved in the creation of the Foundation know the identities of the beneficiaries, as established in the by-laws. The by-laws are private and not available to the Public Registry. In order for a third party to identify the beneficiaries, he must have a court order to “pierce the veil” of the Foundation.

This is extremely rare in Panama because this would contravene the Republic’s campaign to become recognized as a safe haven of secrecy. All persons involved in any activities, transactions or operations related to the Foundation are required to maintain full secrecy and confidentiality at all times. The penalty for breach of this obligation is a jail term of six months and a USD 50,000.00 fine, with the possibility of an additional civil penalty. The secrecy provision applies broadly to all persons involved in any transaction associated with the Foundation.

In the event of political instability, a Panamanian Foundation may relocate to another jurisdiction.

The assets of a Foundation may be obtained as a result of any lawful act or transaction and may consist of properties of any nature, present or future, either real estate, monetary instruments, securities or chattels of any kind. The assets of a Foundation may be increased at any time. The Founder or any other party may transfer assets to the Foundation. Although the Council must inform the beneficiaries of the Foundation’s financial status annually, no reports need be filed with Panamanian authorities or agencies.

The creation, the modification and the extinction of a Foundation are not taxable events. Transfers and encumbrances of Foundation assets are not taxable events. Income generated by a Foundation is exempt from tax in the Republic of Panama. All of the foregoing are not only exempt from tax, but from all assessments, rates and liens of any kind or description. These exemptions apply when the patrimony consists of assets located outside of Panama, and shares or securities of a company whose source of income is outside of Panama or where such income is otherwise not taxable in Panama.

3.6. Frequently Asked Questions about Panama Foundations

A. Who needs a foundation for asset protection?

Every individual who has sufficient wealth to consider establishing a foundation as part of a traditional estate plan must consider asset protection as one of the primary design objectives.

Life is full of unintended, unexpected and unforeseen risks. Ignoring them doesn’t mean they go away. Planning for them is good risk management.

B. What is an asset protection foundation?

All foundation arrangements are for the preservation of assets. A Panama foundation structure enables property to be held in a favorable legal environment. As a legal structure, a Panama foundation can hold assets anywhere in the world so long as those assets are freely alienable. In effect, an asset protection foundation is an integral part of a traditional estate plan which is intentionally settled in a beneficial legal environment.

C. Who may form a Panama foundation?

One or more individuals or corporations, acting in their own name or through another (i.e. the client’s attorneys in Panama), may constitute a Panama foundation. In other words, the foundation can be incorporated directly by the client or by fiduciary agents or offshore companies acting on his behalf. Our firm may act and provide the fiduciary agent or offshore company.

D. Is there one ideal comprehensive asset protection foundation plan?

No. Every person has different sorts of assets and different estate objectives. There is no one-size, all comprehensive plan to deal with every component of a person’s financial life. Planning for a total estate will always be a compromise of factors.

Estate planning, and in particular estate planning focusing on the objective of the protection of assets, is greatly influenced by the skill, knowledge and biases of the professionals who are planning and drafting the documentation. Most recommend only those procedures with which they are familiar, even though those techniques may be less effective than others. Asset protection planning is dependent upon two significant variables. Firstly, the specific situation in which the clients find themselves in; and secondly, the abilities of the professional they choose in guiding them through asset protection strategies. If both are in harmony, then there can be some excellent results.

E. Historically, why has foundation planning been so popular?

The private foundation structure has traditionally been the most flexible and useful means of establishing an estate plan for Continental Europeans and Latin Americans. Estate planning is generally defined as the process of planning the accumulation, protection and distribution of an estate. Foundation planning enables the owner of assets to efficiently and effectively achieve personal objectives, as well as minimize the imposition of taxation. It enables the founder to establish management responsibility for assets and to secure investment advice.

A foundation arrangement allows the founder to be assured that the right assets will go to the right persons at the right time. An estate plan utilizing a foundation is the fundamental international mechanism for enabling the intergenerational transfer of wealth efficiently, effectively and securely.

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F. Can a Panama foundation be profit oriented?

Panama foundations shall not be profit oriented, but they may nevertheless engage in commercial activities in a non-habitual manner or exercise rights deriving from titles representing the share capital of corporations really dedicated to business, provided that the economic result or proceeds from such activities are used exclusively towards the foundation’s objectives. The key concept here is to think of the foundation as a holding company.

G. What are the minimum requirements to incorporate a Panama foundation?

The main information required is:

- Name and Purpose of the Foundation;
- Names of the Foundation Council Members;
- Address of the Foundation;
- Appointment of a Registered Agent; and
- Patrimony.

H. What are the formalities to constitute a Panama foundation?

It is worth noting that the foundation charter as well as any amendments may be drafted in any language and must comply with the regulations regarding the registration of acts and titles at the Public Registry for which purpose, it must first be protocolized by a notary public of the Republic of Panama.

If the foundation charter or its amendments are not written in Spanish, the same shall be protocolized together with its Spanish translation made by a certified public translator of the Republic of Panama.

The registration of the foundation charter of a private foundation at the Public Registry shall confer upon it juridical personality without the need for any other legal or administrative authorization. Registration at the Public Registry shall additionally constitute a means of publicity with regard to third parties. This is an extremely important concept of the Panama foundation legislation.

I. Is the Panama foundation managed like a corporation?

The same way a corporation is administered by a board of directors, the Panama foundation is managed by a Foundation Council whose powers and responsibilities shall be established in the foundation charter or its regulations. Unless the Council is a juridical person (i.e. offshore company), the number of individual members of the foundation council shall be no less than three (3). From a practical point of view, a bank, fiduciary or attorney may form an offshore management company to act as the foundation council of multiple foundations.

J. Which are the statutory powers and duties of the foundation council?

The foundation council is responsible for carrying out the purposes or objectives of the foundation. Unless the foundation charter or its regulations provide otherwise, the foundation council shall have the following general obligations and duties:

- To administer the assets of the foundation in accordance with the foundation charter or its regulations.
- To carry out acts, contracts or lawful business which are convenient or necessary to advance the purposes of the foundation.
- To inform the beneficiaries of the economic situation of the foundation as stipulated in the foundation charter or its regulations.
- To deliver to the beneficiaries of the foundation the assets, properties or resources designated for them by the foundation charter or its regulations.
- To carry out all such acts or contracts which are permitted to the foundation by the Foundation Law and by other applicable legal or regulatory provisions.

These foregoing powers and duties are merely those provided by default in the Foundation Law. Please note that the law expect the founder of the foundation to expressly detail all powers, obligations and duties of the foundation council and any supervisory bodies in the respective charter or its regulations.

K. May the founder create and appoint any supervisory bodies over the foundation council?

The foundation charter or its regulations may provide that, in order to exercise their powers, the members of the foundation council must obtain the previous authorization of a protector, committee or other supervisory entity appointed by the founder or the majority of the founders.



The figure of the protector or supervisory body is typical of the trust. The protector may be one individual or corporation, or an auditing firm, or a law firm or others. Identical to the powers and duties of the foundation council, regarding the protector, the Foundation Law expects the founder to establish clear parameters, but in default or as a compliment thereof, it sets several general duties and obligations of such protectors.

L. How are foundation assets protected from creditors?

The assets of the Panama foundation shall constitute an estate separate from the founder's personal assets for all legal purposes, and may not be seized or attached or be subject to any precautionary action or measure, except in case of obligations incurred, or damages caused by virtue of actions taken fulfilling the purposes or objectives of the foundation, or of legitimate rights of the beneficiaries of the foundation. In no case shall such assets be affected or used to respond for the personal obligations of the founder or the beneficiaries.

This does not mean that a foundation is not subject to litigation. It does mean that if there is litigation, it will have to be brought in that specific jurisdiction and will have to meet the legal requirements of the causes of action which are recognized in that jurisdiction. In some cases, even where a cause of action could be brought, the specific jurisdiction may restrict the time period during which this can happen.

Once that statute of limitation period has passed, the right to bring a legal action is legally extinguished.

M. What kind of assets may be transferred into a foundation?

Virtually, any kind of assets which are capable of being transferred free and clear can be settled into a foundation. Cash, securities, partnership interest, and real estate are typical of some of the types of property which can be suitable placed into foundation. The highest degree of protection is afforded to those kinds of assets which can, in times of legal duress, be physically located away from the jurisdiction or physically transferred away do require additional planning strategies and techniques.

N. Do fraudulent transfer provisions prohibit the transfer of assets into a Panama asset protection foundation?

The fraudulent transfer provision contained in the Foundation Law is a remedy, not a prohibition. It does not create new liability, but allows a creditor to follow the assets. The fraudulent transfer laws are simply a means by which creditors, under very specific circumstances, can proceed against property which has been transferred, or against the person who now holds the property which has been transferred.

These laws do not prohibit or limit the free transfer of any asset. In fact, their operation is entirely dependent upon the assets being transferred. However, article 15 also clearly states that the rights and actions of such creditors shall lapse at the expiration of three (3) years, counted from the date of the contribution or transfer of the assets to the foundation. A special conveyance proceeding is a separate legal action by the creditor to obtain a legal determination that declares a transfer void, but only if properly filed within the three (3) years mentioned before. The remedies available under the transfer provisions are then applicable, but are limited to the property itself or on persons who hold the property. Until there is a legal prohibition against transfer, anyone may freely transfer his or her own property.

O. Apart from creditors, are the transferred assets safe and secure from other risks?

Planned safety and security of the assets held under foundation are the hallmark of this type of planning. The foundation council which manages the foundation is approved by the founder and is normally a company or person which engages in foundation business as a professional fiduciary. As an additional security, a foundation protector can be appointed with power to oversee the administration of the foundation operations.

This protector is a person or company chosen by the founder, the founder's attorney or accountant, or can be a professional company which is retained to serve this purpose.

The foundation assets can be invested with an investment advisor as authorized by the foundation council. Assets themselves can be located in whatever financial institution the foundation council designates, but normally the choice is in favor of one of the well-regarded financial institutions related to our firm.

P. What sort of controls can the founder retain after the creation of the asset protection foundation?

Under the Panama foundation, the founder can exercise different levels of powerful direct or indirect control over the foundation council, the protector, any committees, the beneficiaries or the assets. Nevertheless, control must also be balanced against the desired level of protection to be afforded. More control, less protection.

Q. Is holding property in joint tenancy better than establishing a Panama asset protection foundation?

A joint tenancy is dependent upon both parties staying alive to maintain the protection of assets. If one of the joint tenants should die, then the joint tenancy is broken and the protection is eliminated. Basically, any plan which depends on someone staying alive is a bad method of estate planning. Additionally, there have been some rare court decisions which have broken the joint tenancy or tenancy by the entireties so as to render that form of ownership ineffective for asset protection purposes.

R. Is establishing a Panama asset protection foundation for a client ethical for a professional?

The general rules of ethics provide that a professional has a 100% duty of loyalty to a client. There is no ethical duty to a non-client except that a professional may not "defraud" any other party by his conduct. Fraud in this context does not mean fraudulent conveyance. Fraud connotes deceit and means an intentional misrepresentation or omission made by one party to induce another party to change their position, with the other party justifiably relying upon that misrepresentation or omission, and doing so to their damage. Fraudulent conveyance is a remedy statute and has none of the elements of deceit.

In summary, any client has a right to establish an estate plan which would include a foundation. Any asset can be transferred into an estate planning foundation providing there is no restriction on its free alienability. The fraudulent conveyance laws do not create or establish alien or security interest in another person's assets. All they provide is a right in the creditor to pursue assets held by a third party.



Excepting some very specific criminal statutory requirement such as, for example, those found in UK bankruptcy law, there is no legal or ethical problem for a professional to establish an estate planning foundation for any client at any time. In fact, to do less may very well be malpractice.

S. Are Panama foundations subject to foreign forced heirship rules? The existence of legal provisions regarding inheritance at the place of domicile of the founder or of the beneficiaries shall not affect the foundation or its validity and shall not prevent the attainment of its purposes in the manner provided in the foundation charter or its regulations (Art. 14). This provision is vital from the point of view of asset protection and protects the founder and beneficiaries from forced heirship rules contrary to the wishes of the founder.

Within reasonable possibilities, all foundation assets should be transferred to the jurisdiction of the foundation or to a country without forced heirship legislation. It is important to express, however, that this Panamanian provision will govern only if the rules of the Panama foundation are enforced. Careful attention and planning should be given to this aspect and our experience in providing solutions should be of interest.

T. What is the taxation of a Panama foundation?

The acts of constitution, amendment or extinction of the foundation as well as the acts of transfer, transmittal or encumbrance of assets of the foundation and the income arising therefrom, or any other act in connection

therewith, are exempted from all taxes, contributions, duties, liens or assessments of any kind, provided they are related to:

- Assets located abroad.
- Money deposited by natural or juridical persons whose income is not obtained from a Panamanian source or is not taxable in Panama due to whichever reason.
- Shares or securities of any kind issued by corporations which income is not derived from a Panamanian source or which are not taxable for whatever reason, even when such shares or securities are deposited in the Republic of Panama.

This is the full text of Art.27 of the Foundation Law, which at the same time, save some small changes, is from the recently enacted Panamanian law on trusts. It is well known that the tax system in Panama is territorial, which means that only transactions or activities producing effect within Panama are subject to Panama taxes, also excepting some cases like the ones mentioned above and others. Since the 1930s, the territorial rule of taxation has prevailed in Panama's fiscal law. Accordingly, all income from domestic business is taxable, while income from foreign sources remains exempt and freely transferable. This applies both to individuals and to corporations. Panama has not signed any agreements on juridical or information assistance with foreign countries on tax matters.

The only tax payable by a Panama foundation are USD 450.00 as a fixed annual tax.

U. Can a foreign foundation change jurisdiction and continue as a Panama foundation?

Indeed, foundations organized pursuant to a foreign law may continue as a Panama foundation by fulfilling the flexible requirements of the Foundation Law. As a result of this simple procedure, multiple Liechtenstein foundations have already elected to change their jurisdiction and continue as Panama foundations.

V. Are the Panama foundations protected by secrecy and confidentiality?

All members of the foundation council and of the supervisory bodies, if any, as well as public or private employees, who have any knowledge of the activities, transactions or operations of the foundations, must at all times the same in secret and confidentiality. Breaches of this duty shall be sanctioned with imprisonment of six (6) months and a fine of USD 50,000.00, without prejudice to the corresponding civil liabilities (Art.35). The requirements for maintaining and the sanctions for breaching the secrecy are b.

Information already of public access like the Public Registry is obviously outside the secrecy rule. However, this secrecy provision should not serve as an excuse against legitimate inquiries through pertinent channels regarding specific criminal actions, such as drug trafficking and money laundering, for which the Republic of Panama has implemented specific legal procedures, in a major effort to improve and protect Panama's international offshore centre.

While not providing any specific legal or tax counsel, nevertheless for some individuals or companies, offshore companies may offer specific tax advantages over other jurisdictions. Any potential client seeking legal or tax advice should consult with their individual legal or tax advisor.

Notwithstanding these previous articles and considerations, it is important to refer you to our standard charter and regulations of a Panama foundation since you will find therein the answer or treatment to many questions and potential scenarios. A complimentary copy may be requested to our offices.

3.7. Panama Foundation Law - Law 25 Of 1995:

For information to this law please click here http://www.pardinilaw.com/foundations_law.php

4. Redomiciliation of Companies and Foundations

Corporate redomiciliation is the process by which a company moves its domicile from one jurisdiction to another by changing the country under whose laws it is registered or incorporated, while maintaining the same legal identity.

Companies' redomicile for a variety of reasons including to take advantage of more favorable tax laws or less stringent regulatory provisions; to align their place of registration with their shareholder base; to access specialist capital markets, etc.

For more information about our services, please contact us.

5. Legal and Secretarial Services

Our team of lawyers and corporate secretarial personnel in our office, as well as our associate legal consultants in various countries, are available to advise and provide effective and comprehensive business oriented legal services, including, but not limited to the following:

- Company, trust and commercial law consultancy
- Formation of companies, branches and trusts in various offshore jurisdictions such as Panama, Belize, Seychelles, BVI and others
- Provision of nominee directors
- Provision of company secretary for statutory compliance matters
- Registered office and business office facilities
- Domiciliation / Redomiciliation, statutory compliance services and maintenance of statutory records
- Winding up of a company
- Drafting of contracts, ensuring successful execution of contracts and agreements, liaising with government departments
- Legalisation and Apostiling of documents
- Liaising with the Tax Authorities and obtaining tax clearance certificates, tax residence certificates and Double Taxation Certificates
- Representations of clients before the courts
- Analysis of client's business and preliminary advice on possible improvements on legal matters
- Legal advice on property acquisitions.

6. International Tax Planning Services

We continually assess the changes in the tax legislation in order to be able to provide our clients with advice on how to best take advantage of all available tax benefits to minimize their tax liability.

In addition to expertise in the local taxation legislation in countries where we provide services (either directly or via our associates) our tax consultants have specialist knowledge on International Tax matters, including the benefits from the use of Double Tax Treaty provisions. Through the planning of the optimal group structure for the client and the use of companies registered in several tax jurisdictions, we assist our clients in order to fully utilize all the available tax advantages.

7. Setting Up an Office in Panama

The performance of international business activities may involve the need to set up offices in Panama. This is a task which could be assigned to Pardini & Asociados thus saving considerable time for our clients. Our local Pardini & Asociados specialist associates may assist in setting up an office in Panama. This may include:

- Legal advice
- Finding suitable premises
- Employing staff
- Ensuring compliance with relevant local laws and regulations
- Assisting expatriates in settling in the new location.

8. Banking Services

After the incorporation of the Company or Foundation, our Affiliated Corporate Services Group can arrange introductions to reputable international banks for the opening of bank accounts depending upon your business requirements, account activity, size of deposit of funds, etc. We can assist you with banks in Panama, Belize and Cyprus.

Many customers still believe that opening a bank account is done in one hour, and no documents are required. The reality is that banks operating in Panama, Belize or Cyprus are strict, and depending on the bank, it may take several weeks to open a bank account.

Please be informed that currently banks located in Panama, Belize or Cyprus follow strict "Know Your Client" rules, and in case you decide to pursue opening a bank account in Panama, Belize or Cyprus, you must be prepared to comply with each bank's requirements.

Once you select which country do you want the bank account in, we can provide an outline of the requirements of banks we work with.

Should you have any questions or need any additional information, please contact us.

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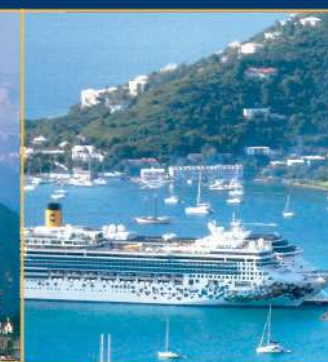
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TAX RESIDENCE
IMMIGRATION PLANNING

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About the Firm

Pardini & Asociados is an international law firm with headquarters in Panama with 35 years of tradition and experience advising foreign clients and corporations of all sizes.

Pardini & Asociados was founded in 1982 with an original practice in Corporate, Commercial, Admiralty and Maritime law, which still continues today.

Since then, our law firm has been at the forefront of many innovative legal developments and during the past 15 years, the law firm has developed a highly specialized practice in foreign investments mainly in the areas of Aviation, Hotels & Resorts, Real Estate, Petroleum, Energy, Mining, Telecommunications, Tax Planning, Intellectual Property, Insurance and Reinsurance, M&As, Banking, Securities, Antitrust and Competition, Manufacturing, Infrastructure, Construction, Litigation plus a strong expertise in Labor and Immigration.

Core Strengths

We offer legal services linked to a broad scope of business needs. Our clients look for us for our experience and knowledge in any of these practice disciplines, our innovation and cost-effective results.

Our team is composed for the best legal specialists in different areas with a deep expertise in all major business sectors.

How we can help you

- Aviation
- Antitrust, Trade & Competition
- Banking & Securities
- Commercial
- Corporate & Transactional
- Employment
- Energy
- Foreign Investments
- Hotels, Resorts & Casinos
- Immigration & Residence
- Infrastructure & Construction
- Insurance & Reinsurance
- IP
- Latin American Practice
- Litigation & Arbitration
- Maritime and Admiralty Law
- Mining, Petroleum & Natural Resources
- Telecommunications & Information Technology
- Wealth, Fiduciary & Corporate Services



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Ranking & Awards

Who's Who Legal

Natural Resource and Transport
2016 / 2017

Private Client, Energy and Aviation - Central America
2018

ACQ Law and Global Award

M&A and Corporate Law Firm of the Year
2013 / 2014 / 2015

Real Estate Law Firm of the Year
2017

Corporate INTL

Aviation Law Firm of the Year in Panama
2012 / 2013 / 2014 / 2017 / 2018

Shipping & Maritime Law Firm of the Year in Panama
2016 / 2018

Acquisition International

Mining & Energy Law Firm of the Year: Panama
2012 / 2013

Business Law Firm of the Year
2014

Dispute Resolution Award
2014 / 2015

Corporate Law Firm & Business Law Firm of the year – Panama
2014

Best Foreign Investments Law Firm - Panama
2016 / 2018

Global 100

Corporate and Litigation Law Firm of the Year
2013 / 2015

Corporate Law Firm of the Year - Panama
2016

Energy and Petroleum Law Firm of the Year - Panama
2016

Real Estate Law Firm of the Year - Panama
2016

Law Firm of the Year - Corporate – Panama
2017 / 2018

Getting the Deal Through

National Expert - Air Transport
2017 / 2018

Legal 500

Dispute Resolution
2017

CityWealth Leaderlist

Lawyers – Corporate and Regulatory
2017