



Country insights

PANAMA

Country insights from Eduardo Montúfar on the advantages of establishing a multinational headquarters in Panama

Eduardo Montúfar, Senior Partner at MGI Montúfar & Asociados in Panama talks about the advantages of setting up business in Panama, and specifically, some of the government incentives provided under Law 41 of 2007.

Q: Why should businesses consider establishing regional or global headquarters in Panama?

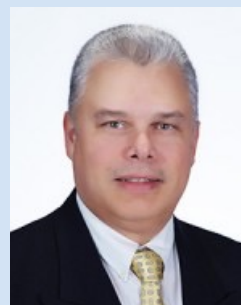
Eduardo: Panama’s strategic position as a commercial hub in the Americas has been significantly enhanced by the enactment of Law 41 of 2007, which established the legal framework for Multinational Company Headquarters (SEM in Spanish).

This law was created with the objective of attracting multinational companies to establish their regional or global headquarters in Panama, offering a robust set of tax, operational, and migratory advantages that make Panama an attractive destination for corporate investment.

Q: What does Law 41 hope to achieve?

Eduardo: The primary purpose of Law 41 of 2007 is to consolidate Panama as a regional and global hub for the provision of administrative, financial, and logistical services to companies within a multinational group.

The SEM regime is designed to facilitate the operations of multinational companies by allowing them to centralize their back-office and administrative functions in Panama, thereby optimizing their global or regional management processes.



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Q: What types of activities are permitted under the SEM regime?

Eduardo: The activities permitted under the SEM regime are broad and flexible, making it applicable to any industry.

These activities include, but are not limited to, the management and administration of business operations, logistics services, technical support, financial management, and treasury operations.

Additionally, SEMs can provide consulting services to their affiliated companies, enhancing their ability to operate efficiently across multiple jurisdictions.

Q: Are there tax incentives provided under the SEM regime?

Eduardo: Yes, one of the most compelling aspects of Law 41 of 2007 is the comprehensive tax incentives offered to SEMs. Under this regime, SEMs benefit from preferential tax treatment depending on the source of their income.

For SEMs that generate income from services provided to companies within the group, a 5% income tax rate is applicable. This reduced rate is still highly competitive compared to the standard corporate income tax rate of 25% that applies to most other businesses in Panama.

This incentivizes SEMs to engage in both regional and local business activities while still benefiting from a significantly lower tax burden.

In addition to income tax benefits, SEMs are also exempt from the payment of Value Added Tax (VAT) on services rendered to their foreign affiliates. This exemption further reduces the operational costs for companies, making Panama a cost-effective location for regional headquarters.

Furthermore, SEMs enjoy an exemption from withholding taxes on remittances abroad, which is particularly beneficial for companies needing to repatriate profits to their parent companies or other subsidiaries. The law also provides an exemption from the tax on dividends, significantly reducing the overall tax burden on multinational corporations.

Q: What are the operational benefits of setting up business in Panama?

Eduardo: Establishing a SEM in Panama under Law 41 of 2007 offers significant operational benefits. Panama’s strategic location, with access to the Atlantic and Pacific Oceans, as well as its advanced logistics infrastructure, provides an ideal base for regional operations. The country is home to one of the busiest and most efficient ports in Latin America, and its logistics capabilities are further enhanced by the Panama Canal, which is a critical gateway for international trade.

Moreover, Panama has a highly developed telecommunications network and a modern financial system, making it a secure and efficient location for the management of multinational operations.

The SEM regime also offers flexibility in the hiring of foreign personnel, allowing companies to bring in skilled workers from their home countries or other regions without the usual restrictions.

Q: Are there advantages to relocating staff to Panama?

Eduardo: The SEM regime under Law 41 of 2007 also provides significant migratory benefits. The law includes provisions that facilitate the hiring and relocation of foreign employees to Panama. SEMs can obtain special visas for their foreign personnel, which are easier to obtain and renew compared to standard work visas.

Additionally, SEM foreign executives and employees are exempt from the payment of income tax on salaries received from their headquarters outside of Panama. This exemption makes Panama an attractive destination for expatriates, as it allows them to maximize their take-home pay while enjoying the benefits of living in a stable and welcoming country.

In conclusion

Panama’s Law 41 of 2007 provides a comprehensive and attractive framework for multinational companies seeking to establish regional or global headquarters in Latin America.

The law offers significant tax, operational, and migratory advantages that make Panama a strategic choice for consolidating administrative and support functions. By taking advantage of the SEM regime, multinational companies can optimize their global operations, reduce costs, and benefit from Panama’s strategic location and advanced infrastructure.

For more information visit mgiworld.com or contact Eduardo Montúfar at montufar@montufarcpa.com



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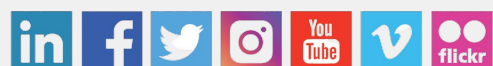


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