

Setting up a Business in Panama

This document provides an overview of the essential steps involved in establishing a business in Panama as a foreign investor. It highlights key requirements under the investment laws of each country, focusing on sectors where foreign participation is unrestricted, limited, or requires government authorization. By understanding these legal frameworks, investors can navigate potential challenges and leverage unique opportunities in each market.

Please note that this guide is intended as a general reference. For advice tailored to your specific circumstances, it is strongly recommended that you consult a qualified legal or financial advisor.

I. Legal Framework for International Investments: Key Considerations

Panama's Investment Promotion Law (*Ley de Estabilidad Jurídica de las Inversiones*) offers a comprehensive legal framework aimed at attracting foreign investment through various incentives. Key benefits under this law include tax exemptions, such as waivers on import duties for machinery and income tax holidays, as well as streamlined processes for obtaining business permits and licenses. The legislation also ensures strong protections against expropriation, safeguarding investor assets and guaranteeing equal treatment for both foreign and domestic investors. Additionally, it promotes investment in strategic sectors like tourism, renewable energy, and technology.¹

While Panama generally allows 100% foreign ownership across most industries, certain sectors impose restrictions on foreign participation. In the media sector, for example, ownership is restricted to protect national interests. Similarly, the banking and financial services sectors require foreign investors to meet additional regulatory requirements, often involving special approvals. The air transport sector also limits foreign ownership of airlines operating domestic routes. As a result, investors should carefully examine² these sector-specific restrictions to ensure compliance with local laws.

II. Starting a Company: A Foreigner's Guide

Setting up a business in Panama as a foreign investor requires navigating the local legal and regulatory frameworks. This process involves several key steps, including selecting the appropriate legal structure, preparing the necessary documentation, and registering with the relevant governmental authorities. Below is a summarized overview of the process:

a. Business Registration Process

Panama's Investment Promotion Law (*Ley de Estabilidad Jurídica de las Inversiones*), Ley No. 54. Available at: [http://¹
www.sice.oas.org/investment/NatLeg/PAN/L_Invers_s.pdf](http://www.sice.oas.org/investment/NatLeg/PAN/L_Invers_s.pdf)

Lloyds Bank. (n.d.). *Investment in Panama*. Available at: <https://www.lloydsbanktrade.com/en/market-potential/panama/>² investment

Starting a business in Panama involves a systematic registration process that begins with the initial registration of the business name with the Public Registry (*Registro Público*). This step ensures that the chosen name is unique and compliant with local regulations. Once the name is secured, entrepreneurs must obtain the necessary licenses and permits relevant to their specific industry, which may include health and safety permits, environmental licenses, and municipal operating permits. The registration process is designed to streamline the entry of foreign businesses into the Panamanian market, fostering an environment conducive to investment.³

b. Selecting the Right Legal Structure

In Panama, the *Corporación* and *Sociedad de Responsabilidad Limitada* (LLC) are the main types. A Corporation structure facilitates easier share transfers and diverse ownership setups, making it preferable for larger enterprises seeking complex shareholder arrangements. Conversely, an LLC is more flexible in terms of management and limits the liability of its members, which can be beneficial for smaller or family-owned businesses. Both entities are subject to different tax and reporting requirements, with Corporations often having more complex compliance obligations.⁴

c. Required Documentation

Specific foundational documents are necessary regardless of the business structure chosen. Key among these is the Articles of Incorporation, which serves as the formal declaration of the business's existence and governance structure. Additionally, founders must submit identification and tax identification documents for each partner involved. Proper documentation is crucial for a smooth registration process.⁵

d. Registration with Relevant Authorities

After preparing the required documentation, businesses in Panama must register with both the Public Registry (*Registro Público*) and the national tax authority, General Directorate of Revenue (*Dirección General de Ingresos*). This registration is critical for obtaining legal status and meeting tax obligations.⁶

e. Additional Considerations for Foreign Investors

Foreign investors entering Panama should explore available visa options and residency permits. A clear understanding of local compliance requirements, including labor and environmental laws, is essential for operational success.⁷

Deloitte. (2023). *Doing Business in Panama 2023*. Available at: <https://www2.deloitte.com/pa/es/pages/tax/articles/doing-³business-panama-2023.html>

Kraemer, K. (2024). *Panama company structures: A full guide*. Kraemer & Kraemer. Available at: <https://kraemerlaw.com/en/⁴articles/panama-company-structures-full-guide/>

Id.⁵

Id.⁶

Id.⁷

III. Taxation and Banking Compliance for Foreign Investors

Panama operates a territorial tax system, meaning that only income generated within its borders is subject to taxation, with a standard corporate tax rate of 25%. The country provides various incentives for specific sectors, including free trade zones and industries such as tourism and technology, which can include tax holidays and reduced rates to attract investment. Additionally, Panama imposes withholding taxes on various payments made to foreign entities, including dividends, interest, and royalties. These rates can vary depending on the type of income and any applicable tax treaties that may lower these rates.⁸