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BUSINESS ENVIRONMENT

THE CONSUMER

Consumer Profile

Panama has the second-highest per capita GDP in the region, nevertheless, poverty and inequality remain widespread: in fact, Panama has the third-worst income distribution in Central America, with a Gini Index of 49.2 points (CIA World Factbook, latest data available). About one-fourth of the population lives in poverty; however, from 2006 to 2012 alone poverty was reduced by 10% (World Bank). The indigenous population accounts for a growing share of Panama's poor and extreme poor, while the non-indigenous rural poor population improved their situation by moving to urban areas. The purchasing power of Panamanian has been on the rise in recent years (World Bank), resulting in an increased interest in quality products and organic food.

The population is concentrated towards the centre of the country, particularly around the Canal, but a considerable number of people also lives in the far west around David; the eastern third of the country is sparsely inhabited.

Consumer Behaviour

Panama claims the second-highest GDP per capita in Latin America and is one of the main markets due to its strategic position and the commercial and financial opportunities that the country has to offer.

Panamanian consumers can be divided into two socio-economical segments: the higher income group, which prefers international products and gives more importance to quality rather than price, which is influenced by American and European trends and likes to go shopping in malls; and the lower-middle-income for which price is the key factor when making a purchase decision, often looking for discounts and buying in department stores and outlets.

Panamanian consumers are open to new products and are now buying more on the internet. Nevertheless, they do not only use the internet to seek discounts, but also to get information and reviews about the products they intend to buy.

The influence of the U.S. is still really strong, thus American brands are generally considered of better quality when compared to similar products of other origins.

When it comes to food, the grocery market in Panama is mostly driven by supermarkets, hypermarkets and independent food stores. In recent years, consuming more convenience and healthy foods has been the trend.

Consumers Associations

[Panamanian Institute for Consumer Rights \(IPADECU\)](#)
[Consumer Protection and Competition Defense Authority](#)

IMPORTING & DISTRIBUTING

Import Procedures

It is not necessary to obtain a license to import in Panama. All companies with a trading license can freely import into Panama any product whatsoever that is unregulated. A trading or industrial license is required for individuals or companies wishing to undertake commercial or industrial activities. A phytosanitary permit is required to import certain non-food agricultural products. Special import permits are required for all types of firearms, ammunition and fertilisers. In general, food products and beverages should be registered with the Panamanian Food Safety Authority and should respect the requirements regarding hygiene and quality control. Food products that are not freely on sale in their country of origin cannot be imported into Panama. It is the duty of the Executive, at the request of the Ministry of Health to establish the sanitary rules relating to the fabrication, storage, importation and sale of medicines and subsidiary products. It is forbidden to manufacture or to import into Panama these products without them being analysed or registered beforehand.

Main documents required by the Panamanian Customs authorities for import purposes:

- Import declaration (prepared by the Customs agent)
- Commercial invoice (in English or Spanish, quadruplicate)
- Airline transport letter
- Bill of lading (triplicate)
- Business permit number
- Health or phytosanitary permit (in the case of animal or vegetable agricultural products)
- Certificate showing that products are sold freely (in the case of products meant for human consumption including for example body lotion).

For more information, please visit the website of [PwC](#).

Distribution market players

Panama City accounts on average for 65% of total domestic sales of consumer goods. The remaining 35% is divided between other major cities including David, Colón, Santiago and Chitré (ITA, 2021).

In Panama, the mass retail distribution structure is not too sophisticated: Direct importers either sell their merchandise in bulk or retail. Concerning mass consumption products (food and medicines), bulk and retail sales are done separately. Regarding industrial products, sales are usually conducted by exclusive local agents or distributors and sometimes the local firms buy directly through brokers or producers.

Regarding industrial products, sales are normally made by local exclusive agents or distributors. In other cases, local companies order directly from foreign brokers or the manufacturer.

Some of Panama's main importers are also regional distributors for Central and/or South America, with storage facilities located in the Colón Free Zone (CFZ). In general, importers/distributors of CFZ have affiliate stores in Panama City for retail sale in the local market.

Most of the Panamanian trade goes through the ports of Manzanillo, Cristobal and Evergreen on the Atlantic Coast, as well as the port of Balboa on the Pacific Coast. Tocumen International Airport handles most of Panama's air cargo.

OPERATING A BUSINESS

Type of companies

Sociedad de responsabilidad limitada or S de RL (Limited Liability Company)

Number of partners: At least 2 shareholders

Capital (max/min): No minimum capital required

Shareholders and liability: Limited to the amount of capital contributions

Sociedad anonima or SA (Corporation)

Number of partners: At least 3 executives and 1 shareholder. No limit in the number of partners

Capital (max/min): No minimum capital required

Shareholders and liability: Only limited to unpaid subscribed capital

Sociedad en Comandita Simple

Number of partners: At least two, one general partner and one silent partner

Capital (max/min): No minimum capital required

Shareholders and liability: Unlimited for general partners, limited for silent partners

Setting Up a Company	Panama	Latin America & Caribbean
Procedures (number)	5.0	8.0
Time (days)	6.0	25.2

Source: Doing Business - Latest available data.

Cost of Labour

Minimum Wage

The **minimum wage levels can vary** significantly depending on the sector and region in which the employee works.

In 2021, the minimum monthly wage for domestic work is set at BAP 300 or BAP 275 depending on the region (Ministry of Labour and Labour Development of Panama).

Average Wage

According to the ILO, the average salary was PAB 1,422 per month in 2018 (latest available data).

Social Contributions

Social Security Contributions Paid By Employers: 12.25% of the monthly gross wage (and 10,75 % of the 13th month)

Social Security Contributions Paid By Employees: 9.75% of the monthly gross wage (and 7.25% of the 13th month)

Intellectual Property

National Organisations

The **Directorate General of the Industrial Property Registry**. Panama signed the General Inter-American Convention for Trade Mark and Commercial Protection of 1929.

The new intellectual Property Law, approved in April 1996 fulfils the WTO requirements. The law strongly

punishes brand name and patent piracy and provides for speedy proceedings in the case of conflict.

International Membership

Member of the [WIPO](#) (World Intellectual Property Organization)

Signatory to the [Paris Convention](#) For the Protection of Intellectual Property

Membership to the [TRIPS agreement](#) - Trade-Related Aspects of Intellectual Property Rights (TRIPS)

TAX RATES

Consumption Taxes

Nature of the Tax

Value Added Tax (VAT) - Impuesto a la transferencia de bienes corporales muebles y la prestación de servicios ([ITBMS](#))

Tax Rate

The VAT standard rate is 7% except for alcoholic beverages and hotel accommodations (10%) and tobacco products (15%).

Reduced Tax Rate

Certain goods and services are exempt from VAT: supplies made by agricultural producers; unprocessed fish, meat and game supplied by non-industrial fishermen and hunters; exported goods; medical and pharmaceutical products; school materials; supplies of goods made in a free zone in Panama; supplies of movable goods within an authorized customs warehouse; oil and related products (motor oil is subject to VAT); groceries; hand tools, fertilizers, insecticides, fungicides and similar products used in agriculture.

Certain products have higher rates: alcoholic beverages and hotel and other lodging services are taxed at 10%, whereas tobacco and tobacco-derived products are taxed at 15%.

Other Consumption Taxes

Excise duties are levied on several products, including jewellery, expensive automobiles, guns, tobacco, alcoholic beverages, and services such as cable television and mobile services. Different tax rates apply depending on the type of service or good (between 5% on soft drinks and 100% on tobacco products).

Corporate Taxes

Company Tax

25% (the rate may vary if the company is subject to an alternative minimum tax (CAIR))

Capital Gains Taxation

Capital gains arising from the sale of securities and negotiable instruments are taxed at 10%. The buyer must retain 5% of the sales price as a tax advance and pay the amount to the tax authorities.

Real estate gains are taxed at the standard corporate tax rate if the transaction giving rise to capital gains is part of the taxpayer's main business activity, otherwise, a reduced rate of 10% applies. However, in such cases, the buyer must retain 3% of the sale price or the taxable value of the property (whichever is higher) and pay this amount as a tax advance.

Main Allowable Deductions and Tax Credits

Costs and expenses that are related to non-taxable income are deductible. Companies are therefore encouraged to separate their costs and expenses generating taxable income from others. Deductions are available for depreciation (including goodwill when the transferring party declares it as income). Start-up expenses are also deductible, through amortization over a maximum of five years.

Bad debts as well as national and municipal taxes on any taxable activity are deductible. Fines are not deductible while the deduction for donations to charities is limited to 1% of taxable income. Since the tax is territorial in Panama, there are no unilateral tax credits for taxes paid abroad.

The calculation of the tax base is different for companies with taxable income above USD 1.5 million. These companies may be subject to the ordinary corporate tax rate or pay 4.67% of gross taxable income as an alternative minimum tax. Many tax exemptions are available to companies investing in the Panama-Pacifico Special Economic Zone and manufacturing companies (in the form of VAT exemption for imports).

Tax losses of up to 20% per annum can be carried forward over five years. Losses cannot exceed 50% of taxable income in a tax year. The carryback of losses is not permitted.

Other Corporate Taxes

Employers pay social security contributions of 12.25% of the total remuneration of the employee and are required to pay an education insurance tax (1.5% of salary). Workplace accident insurance premiums are also payable by the employer at rates ranging from 0.56% to 5.67% depending on the risk associated with the employee's occupation.

The property tax varies between 0% and 1% for commercial or industrial real estate and land. A property transfer tax of 2% of the purchase price or the cadastral value (the highest value being used) is levied on sales of real estate. Stamp duties vary typically between PAB 0.10 and PAB 100 and apply to certain commercial contracts.

Companies that have not declared their dividends are subject to a tax on retained earnings ranging from 10% to 40% of their after-tax income (2% for companies in the free-trade zones, subject to conditions). All companies are also subject to a franchise tax of USD 300 per annum and an operations notice tax (2% of the company's capital, minimum amount of USD 100 and maximum of USD 60,000 per year).

Municipalities reserve the right to levy taxes at the local level, usually ranging from USD 10 to USD 2,000 per month.

Other Domestic Resources

[Tax Collection Directorate](#)

[Consult Doing Business Website](#), to obtain a summary of the taxes and mandatory contributions.

Double Taxation Treaties

Countries With Whom a Double Taxation Treaty Have Been Signed

List of Double Taxation Agreements

Withholding Taxes

Dividends: 5% (distributed out of foreign-source profits or export profits)/10% (distributed out of domestic profits)/20% (in the case of bearer shares)/40% (paid to an individual or legal entity resident in a jurisdiction that discriminates against Panama); Interest: 0 (residents)/ 12.5% (effective tax rate for non-residents); Royalties: 0 (residents)/ 12.5% (effective tax rate for non-residents).

