

PANAMA ECONOMIC SUBSTANCE LAW 526: WHAT YOUR BUSINESS NEEDS TO KNOW BEFORE 2027

Key Points:

- 1 Panama-incorporated entities belonging to multinational groups that receive dividends, interest, royalties, capital gains, or other foreign-source passive income must demonstrate that genuine operations exist in Panama or face a 15% tax on those earnings or net taxable income.
- 2 The law takes effect for fiscal year 2027, meaning businesses must act now: review corporate structures, document operations, and gather the information the regulator will require.
- 3 Banks, insurers, shipping companies, and other regulated entities benefit from special rules or full exemptions — but must formally certify their status before the Ministry of Economy and Finance.

Panama has long been recognized for its territorial tax system, under which income generated outside the country is not subject to local taxation. This principle has been central to establishing Panama as a leading hub for finance, logistics, and international services. However, mounting international pressure has pushed Panama to align with global tax transparency standards — giving rise to Law 526 of May 28, 2026.

This new law does not eliminate the territorial tax principle, but it does introduce a critical condition: for foreign-source passive income to remain tax-exempt in Panama, companies must demonstrate genuine economic substance in the country. In plain terms, being registered here is no longer enough — you must be actively operating here.

WHAT IS “ECONOMIC SUBSTANCE” AND WHY DOES IT MATTER?

Consider a Panama-based company that receives dividends from a foreign subsidiary. Before this law, those dividends were not subject to any form of taxation in Panama. Now, the key question is: does your company genuinely manage, direct, and control those assets from Panama? Do you have qualified staff on the ground here? Are the critical business decisions being made on Panamanian soil?

If the answer is yes — and you can prove it with documentation — your company continues operating as before. If the answer is no, or if you cannot substantiate it, those passive income streams will be subject to a 15% tax.

WHICH TYPES OF INCOME ARE AFFECTED BY THE PANAMA SUBSTANCE LAW?

The law applies to what it calls "foreign-source passive income." While the term sounds technical, it simply refers to money flowing into your Panama entity from assets or investments held in other countries:

TYPE OF PASSIVE INCOME	WHAT DOES IT MEAN IN PLAIN TERMS?
Dividends	Earnings received from subsidiaries or affiliated companies abroad
Interest	Returns on loans or investments held in other countries
Royalties	Payments for the use of patents, trademarks, or intellectual property
Capital gains	Profits from the sale of assets or equity interests outside Panama
Real estate income	Rental or other income from properties located abroad
Other capital income	Leasing of movable assets or other passive returns from foreign sources

WHAT IS THE TAX EXPOSURE FOR NON-COMPLIANT COMPANIES?

15%

FLAT TAX RATE ON NET TAXABLE INCOME

Applicable to passive income from foreign sources when the entity cannot demonstrate economic substance in Panama. Additional penalties, surcharges, and interest may also apply for non-compliance.

Net taxable income is calculated by deducting the costs and expenses directly related to generating those passive earnings. The tax does not apply to gross income, but to what remains after properly documented, directly attributable expenses are subtracted.

WHAT MUST YOUR COMPANY DEMONSTRATE TO STAY COMPLIANT?

Panama's Economic Substance Law establishes three core conditions that every affected entity must meet to be considered a qualified entity – that is, one with genuine economic substance in Panama:

- **Qualified personnel in Panama:** qualified employees, receiving adequate compensation, dedicated to managing the assets that generate foreign-source income, supported by appropriate physical facilities in Panama.
- **Strategic decisions made in Panama:** Key decisions regarding foreign investments and assets must be made – and demonstrably so – on Panamanian territory.
- **Real operational expenditure in Panama:** Concrete operating costs tied to the management of those assets, separate from payroll and facility maintenance expenses.

Important note: Entities whose sole activity is holding equity participations in other companies (holding structures) or maintaining real estate are only required to fulfill the first condition – having personnel and physical facilities in Panama – provided they do not engage in substantial commercial or investment activities.

WHICH COMPANIES ARE EXEMPT FROM PANAMA'S ECONOMIC SUBSTANCE REQUIREMENTS?

The law acknowledges that certain sectors already operate under specialized regulatory frameworks. The following entities are exempt from the economic substance rules, provided they formally certify their status before the MEF:

- Banks licensed and supervised by the Superintendency of Banks of Panama (SBP)
- Insurance and reinsurance companies supervised by the Superintendency of Insurance
- Securities market intermediaries supervised by the Securities Market Superintendency (SMV)
- Regulated investment funds and pension funds in Panama
- Shipping companies registered under Panama's merchant marine registry

Important warning: Being in one of these categories does not grant automatic exemption. Each company must demonstrate before the MEF that its license is current, that the relevant passive income derives directly from its regulated activity, and that effective management and direction is maintained in Panama. Registration alone is not sufficient – active demonstration is required.

WHEN DOES THE LAW TAKE EFFECT – AND WHAT SHOULD YOU DO RIGHT NOW?

Law 526 enters into force as of fiscal year 2027. However, the Executive Branch has 90 calendar days to issue implementing regulations that will specify the required forms, procedures, and exact deadlines. This means the detailed compliance framework will be defined in the coming months – and businesses should not wait.

Going forward, every affected entity must include in its annual income tax return both the foreign-source passive income received and the supporting information that demonstrates its economic substance in Panama. The MEF will maintain a registry of all entities subject to this requirement and may verify compliance at any time.

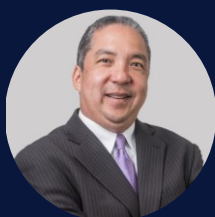
FIVE CONCRETE STEPS TO PREPARE YOUR BUSINESS

- 1 Review your corporate structure**
Identify whether any Panama-based entity in your group receives passive income from abroad: dividends, interest, royalties, capital gains, or others.
- 2 Document your current economic substance**
Take stock of the personnel, facilities, and operational expenses in Panama linked to those income-generating assets. This documentation will be required by the MEF.
- 3 Determine whether a sectoral exemption applies**
If your company is a bank, insurer, shipping company, or regulated fund, prepare the formal certification before the MEF to claim the applicable exemption.
- 4 Assess whether structural adjustments are needed**
Evaluate whether your current structure already meets the law's three requirements – or whether changes are needed before fiscal year 2027 begins.
- 5 Consult your tax advisor or auditor**
A tailored impact analysis is essential. The implementing regulations will be published within 90 days and will define the exact forms, deadlines, and reporting procedures.

Bottom line

Law 526 of 2026 does not dismantle Panama's tax advantages – it preserves them, but now demands that businesses prove they deserve them. Companies that genuinely operate from Panama will have no issues. Those that are merely registered here without real operations will need to adapt or face the 15% tax. The time to act is now, before the regulations take effect and the first fiscal year under this law begins.

CONTACTS RSM PANAMA



Ricaurte Chang
Audit & Tax Partner
rchang@rsm.com.pa



Jaime Pardo
Tax Manager
jpardo@rsm.com.pa

RSM Panamá, S.A.

PH. Humboldt Tower, Piso 8 – Calle 53 Marbella

T: + (507) 366-4600

E: rsm@rsm.com.pa

W: <https://www.rsm.global/panama/es>

