

# Take Advantage of Panama's Incentives for Foreign Investors

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**International Living**

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Panama is an entrepreneur's paradise, thanks mostly to the number of attractive programs and special trade zones its government has set up to draw foreign investors to its shores. Add to that its state-of-the-art infrastructure and its emerging status as a world-class technology and communications hub, and you'll understand why serious investors are now giving it a closer look.

This report will introduce you to some of the tax-advantaged enterprises available right now to foreign investors, and why, for the third year in a row, Foreign Policy magazine named Panama the most globalized country in Latin America and, worldwide, ranked it higher than traditionally business-friendly nations like South Korea and Taiwan.

## Business investment opportunities thrive as Panama prepares for increasing trans-canal traffic and commerce

In this age of globalization, location is the key to economic success. And Panama's location—with its major ports positioned on both entrances to the Panama Canal—makes it the main trans-shipment center of Latin America. With just 50 miles of land separating the Atlantic and the Pacific Oceans, Panama is situated at the crossroads of world trade. Nearly 14,000 ships transit the Panama Canal each year, carrying almost 200 million tons of cargo. Already Panama has begun major development projects, including building new locks, in anticipation of substantial increases in canal traffic over the next several years, and its ports—four on the Atlantic coast and two on the Pacific side—are expanding their trans-shipment capacity.

Equally aggressive development is also underway right now as Panama updates and expands its intermodal transport system, which combines its seaports with air, rail, and auto to accommodate the annually increasing volumes of cargo passing through the country. For the serious investor, this concentrated development—to the canal and to the intermodal transport system—opens up attractive opportunities in the construction industry, in the transportation and distribution industries, and in maritime and other support services.

# Invest in a tourism-related business and reap enormous tax benefits

In 1994, Panama adopted Law No. 8, the most modern and comprehensive law for the promotion of tourism investment anywhere in Latin America or the Caribbean. Since then, dozens of the world's largest hotel chains have taken advantage of the law's tax breaks and built new hotels and resorts throughout the country. As further proof of its success in attracting new tourism-related business to Panama, an estimated \$550 million worth of new projects are either in the pipeline or under development as investors seek their share of big profits from Panama's rapidly growing tourist industry.

Panama's tourism investment laws are not just designed to lure multi-million dollar projects. Anyone able to invest more than \$300,000 in Panama City, or \$50,000 in rural areas, can take advantage of these attractive tax benefits:

- \* 20-year exemption of any import taxes due on materials furniture, equipment and vehicles
- \* A 20-year exemption on real estate taxes for all assets of the enterprise
- \* Exemption from any tax levied for the use of airports and piers
- \* Accelerated depreciation of 10% per year for real estate assets

To further encourage tourism-related development, Panama has established several Special Tourism Zones in different parts of the country. As an added incentive for investing in one of these designated zones, you also receive a 15-year exemption on income tax.

Though the minimum investment amounts do not include the price of property, you can still find values on undeveloped land throughout the country. And Panama's diverse geography—from beaches to unspoiled tropical forests—offers a wide choice in tourism-related business opportunities.

# Huge tax and financial benefits in this exporter's paradise

In 1948, Panama created the Colon Free Zone (CFZ) on 120 acres near the Atlantic entrance to the Panama Canal to provide local manufacturers with an international market for their goods. Today, at 10 times its original size, Colon is the largest duty-free zone in the Americas, and second largest in the world, after Hong Kong. Not since the 17th and 18th centuries, when Portobelo was Spain's major trading center in the New World, has Panama enjoyed the glory of a major world export center like Colon.

The Colon Free Zone employs over 14,000 people in the 2,600 businesses established there, and the imports/ re-exports passing through it account for roughly 10% of Panama's GNP. In the past five years, the zone has averaged annual sales of \$10.6 billion.

Because of its location near the opening of the Panama Canal, nearly all world shipping routes pass the Colon Free Zone. Wholesalers and retailers from around the world travel to the CFZ to buy consumer products, then have them re-exported in container loads or smaller lots for resale. A modern and efficient infrastructure, including re-activated rail service and four new ports, ensures easy and cost-effective distribution of goods internationally.

You don't have to be a giant multinational corporation in order to take advantage of the attractive tax advantages the Colon Free Zone offers. To qualify, 60% of a company's output must be exported from the CFZ, and it must employ a minimum of five Panamanians. Any individual or company can set up operations there by applying to the administration and providing commercial bank references. Companies will also need to present articles of incorporation. No commercial license is required and no minimum capital investment is stipulated.

Companies located in the CFZ enjoy complete exemption from tax on imports and re-exports—no duties, tariffs, permits, fees, and quotas, or income tax on profits earned from exporting their goods to other countries. Additionally, dividends to offshore stockholders are untaxed and, on assets held for at least two years there is no capital gain tax.

The Colon Free Zone is administered as an autonomous institution of the Panamanian government and is operated and managed by its Board of Directors, an Executive Committee, and the General Manager of the institution.

There are four primary types of sales operations that companies can engage in within the Colon Free Zone:

1. Re-export of goods from CFZ warehouses;
2. Sales to clients located within Panama's customs territory;
3. Direct sales to foreign clients in which goods are shipped from a third country manufacturer without physically arriving in the CFZ; or
4. Transfers in which sales are made to other CFZ firms.

If you don't need your own space within the Colon Free Zone, two methods of setting up shop there make better financial sense for smaller operations: You can choose an existing company to represent you, or opt for all your products to be handled by the public warehouse system.

Reaching an agreement with a company already established in the CFZ, establishes that company as your representative and the cost is determined by mutual agreement between the parties involved. All representation agreements are subject to the approval of the CFZ Administration.

Public warehouses operated by the CFZ Administration are equipped to handle all of the logistics involved in receiving, storing, and arranging for the transport of your goods. You'll have no capital investment or fixed costs, and payment is based upon the weight or volume of the goods stored.

For companies able and willing to put out a large initial capital investment, two other options of starting a business in the Colon Free Zone are also possible. Firms can lease lots upon which to build warehouses or other facilities in the CFZ. These land leases are granted for a 20-year period. Alternatively, companies can purchase an existing facility from the CFZ Administration.

With its powerful tax benefits, low operation costs, and easy access to massive markets at competitive rates, the Colon Free Zone offers an extremely attractive foreign investment option.

# Export Processing Zones

In 1992, Panama enacted Law No. 25, establishing Export Processing Zones (EPZs) and granting special fiscal incentives for industrial, commercial, and service facilities engaged in export-oriented production. The main export industries allowed in the EPZs are manufacturing, assembly, processing, and telecommunications and high technology parks.

If you set up a business in an Export Processing Zone, you are exempted from taxes and duties on any machinery you import to manufacture your goods, from income tax on profits arising from the exports, and from export sales tax.

Similar incentives exist for oil and petrochemical companies located in the country's Petroleum Free Zones, as well as for Call Centers.

## Attractive investment opportunities in Panama's emerging hi-tech industry

Panama is emerging as a major telecommunications center and there is currently a trend to establish EPZs as Hi-Tech Parks. The most notable of these is located in Clayton, just 15 minutes from downtown Panama City, and has been called "The City of Knowledge."

Specifically set up to attract hi-tech businesses—particularly those engaged in information technology—the City of Knowledge offers resident companies rent reduction as well as property and equipment tax reductions. This hi-tech park has already attracted both established international corporations and start-up companies engaging in software development, telecommunication services, e-commerce, digital libraries, video conferencing, and other 21st-century information technologies.

Complimenting these state-of-the-art technology companies, both local and international universities and organizations have established facilities in the City of Knowledge, as well, encouraged by Panama's desire to set up a world-class community

of innovative companies, academic institutions, and research labs working in close proximity to one another.

Foreign companies and organizations establishing a presence in this unique hi-tech park are eligible for the special City of Knowledge work visa program. This allows foreign investors to obtain up to five work visas, valid for an initial term of two years, and renewable for an additional two years for those renting an office or other facility in the City of Knowledge. These temporary visas include entry for researchers, professors, businesspersons, technicians, and students.

The companies and schools in the City of Knowledge benefit from proximity to Panama's international banking and financial sector, the Colon Free Zone and its strategic position as a world transportation hub.