

Law 52 of October 27th, 2016

Which establishes the obligation of keeping accounting records and underlying documentation to all legal entities that do not carry out their operations within the Republic of Panama ("offshore"), and other applicable provisions.

Panama's taxation system is mainly territorial, in that – generally speaking – only income earned from Panamanian sources or with respect to assets located in Panama is taxed. Other taxes, including municipal and value-added taxes, are also applicable.

All corporations, once registered publicly, are also registered with the Directorate General of Revenue and provided with a tax identification number. Any corporation that has activities in Panama is subject to permit and licensing requirements and, as such, is required to keep accounting records and fulfill tax obligations prescribed by applicable laws, including the Panama Commercial Code.

On the other hand, companies that are registered in Panama, but do not have a physical presence or carry out business in the country, are not subject to taxes in Panama. These are generally referred to as offshore corporations. They are not supervised by local tax authorities, but by the foreign tax authorities where they conduct their business activities.

Law 52 of October 27th, 2016 ("Law 52") imposes an obligation to keep accounting records, and any underlying documentation, on any corporation, limited liability company, private interest foundation and any other legal entity for commercial purposes constituted under the laws of Panama whose activities and operations take place or have effects outside Panama. Moreover, Executive Decree 258 of September 13th, 2018 ("Executive Decree 258") regulates certain obligations related to the maintenance of the accounting records established under Law 52.

The Republic of Panama enacted Law 254 of November 11, 2021 (the "Law 254"), which introduces modifications regarding international tax transparency and the prevention of money laundering, the financing of terrorism and the proliferation of weapons of massive destruction.

One of the main changes is with respect to Law 52, which established the obligation to maintain accounting records and supporting documentation for legal entities that do not carry out operations that are perfected, consume or produce their effects within the Republic of Panama.

As of the entry into force of Law 254, any legal entity that does not carry out operations that are perfected, consumed or have their effects within the Republic of Panama will be obliged to present to the resident agent a copy of the accounting records of the immediately previous year, no later than April 30 of each year.

Since 2022 the applicable deadlines to deliver a copy of the accounting records have been extended in different occasions. According to Resolution No. 201-6489 of July 6th, 2023 issued by the Panama Tax Agency (*Dirección General de Ingresos - DGI*), the deadline for Resident Agents to file at the DGI the first declaration regarding the list of Panamanian entities that have complied or not with such obligation was extended to October 15, 2023, corresponding to the accounting records from the 2021 and 2022 periods.

It is important to note that, as of August 2023, Law 254 is pending to be regulated, so there may be changes in the form or content of the accounting records or their presentation to the resident agent.

What are accounting records under Law 52?

For the purposes of Law 52, it is interpreted that the accounting records must be provided in the following manner:

1. In the case of legal entities that do not carry out acts of commerce according to article 2 of the Code of Commerce of the Republic of Panama, and that are exclusively dedicated to being holders of assets, whatever their class, they must provide information that demonstrates the value of the assets held, the income received from those assets and the liabilities relating to those assets.
2. In the case of legal entities that carry out acts of commerce as defined in article 2 of the Code of Commerce of the Republic of Panama, outside the Republic of Panama, and any other legal entity not covered by the previous numeral, they must provide a general journal and ledger.

The accounting records and underlying documentation kept in Panama must follow the International Financial Reporting Standards (IFRS) issued and those issued by the International Accounting Standards Board (IASB) and must be prepared and endorsed by a Panamanian Certified Public Accountant.

On the other hand, the accounting records and underlying documentation of legal entities that are kept outside of Panama can be kept in the language from where they originate, nonetheless, said records and documentation must be translated into Spanish by an authorized public translator in Panama for submission to the competent authority.

What is underlying documentation?

All financial records including agreements, invoices, receipts or any other documentation necessary to evidence any and all assets, liabilities and/or transactions that the legal entity keeps.

Period

The accounting records and underlying documentation shall be maintained and available for a period of 5 years after the transaction(s) have been completed or when the legal entity has ceased its operations. Copies of said accounting records must be provided annually to the resident agent, no later than April 30 of each year.

To whom does this Law apply?

To every Panamanian corporation (S.A.), limited liability company (SDRL) or any other kind of corporation with commercial purposes, as well as private interest foundations, that do not carry out their operations within the Republic of Panama. Copies of such accounting records must be provided to the resident agents annually, no later than April 30 of each year.

Obligations

1. **Location of the accounting records and underlying documentation:** the accounting records and underlying documentation may be kept at the offices of the Resident Agent or in any other place within our outside the Republic of Panama. In case of the latter, the legal entity shall be obliged to provide to the Resident Agent the following information, in writing:

- a) Physical address where the accounting records and underlying documentation are being kept.
- b) Name and contact details of the person who keeps custody of the accounting records and underlying documentation.
- c) Copies of the accounting records corresponding to the immediately previous year.

In the case of any change in the above-mentioned information, the resident agent shall be informed immediately.

Resident agents are required to submit annually to the competent authority a sworn statement confirming the list of entities that have (or have not) complied with their obligations under Law 52. Copies of the accounting records are not submitted to the competent authority but are only provided if specifically requested by the competent authority.

2. **Request of information by competent authority:** if there is a requirement by the competent authority, in addition to the accounting records or copies of the accounting records, the legal entities will be obliged to provide the resident agent with the supporting documentation of the accounting records within the time established by the competent authority, in order to meet the requirement.

The competent authority will sanction legal entities that fail to comply with the obligations established in Law 52 with a fine from B/.5,000.00 to B/.1,000,000.00, considering the severity of the offense, the recurrence, and the magnitude of the damage.

The competent authority will sanction the resident agent who does not comply with the obligations established in Law 52 with fines from B/.5,000.00 to B/.100,000.00, considering the severity of the fault, the recurrence, and the magnitude of the damage.

3. **Share Register and Share Certificates:** The resident agent is required to keep copies of the share certificates and share register of corporations for which it acts as resident agent, in its offices within the Republic of Panama.