**Dear Clients:**

Through **Law 526 of May 28, 2026**, published in Official Gazette No. 30534-B (the "Law"), the Republic of Panama adopted economic substance requirements applicable exclusively to Panamanian entities belonging to a multinational group that generate certain passive income from foreign sources.

The Law **maintains the territoriality principle that governs the Panamanian tax system** and does not introduce a tax of general application on passive income from foreign sources. Consequently, passive income from foreign sources will continue to be considered non-taxable in Panama, provided that entities subject to the Law comply with the economic substance requirements.

**Not all Panamanian entities will be subject to this regime**, as it applies exclusively to entities that are part of a multinational group, with tax residence in at least two different jurisdictions.

Subject entities must implement the substance requirements **proportionally** to their activities and income, and the Law expressly recognizes the possibility of **outsourcing** functions and services in Panama.

The Law will apply as of the **2027 fiscal year**, allowing Panamanian entities to evaluate their structures and implement the necessary requirements during the remainder of 2026. **The first economic substance declaration would correspond to the 2027 fiscal year and should be filed in early 2028.**

The Law must be **regulated by Executive Decree within a period of three months**. The regulations will develop **key operational and administrative aspects of its practical implementation.**

With this new legislation, Panama continues to align itself with modern international regulatory standards, while preserving the essential elements that have made the country a recognized jurisdiction for the establishment of international structures and operations. Similar economic substance requirements have been adopted in various international jurisdictions in recent years as part of the global evolution toward higher standards of transparency and real economic presence.

Below is a summary of the most relevant aspects of the Law:

## Who Does It Apply To?

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| **Subject Entities** | Entities incorporated or domiciled in Panama that are members of a multinational group and that obtain passive income from foreign sources. |
| **Non-Subject Entities** | Entities that are not part of a multinational group, as defined by the Law. |
| **Multinational Group (for purposes of the Law)** | A group of two or more entities, linked by ownership or control, that are tax residents in different jurisdictions, including the parent company, subsidiaries, and permanent establishments. An entity is considered part of a multinational group if it is included in the group's consolidated financial statements or should be. |
| **Covered Passive Income** | • Dividends or profit distributions<br>• Interest<br>• Royalties<br>• Capital gains<br>• Real estate capital<br>• Other movable assets capital. |

## What Are the Economic Substance Requirements?

Entities within the scope of the Law must file annually an income tax return in which they must report passive income from foreign sources and demonstrate real economic substance in Panama with respect to each type of passive income obtained.

To demonstrate economic substance in Panama, the entity must comply with and be able to demonstrate, **in proportion to the level of activity and income generated**:

1. **Human resources and facilities:** Adequate, remunerated, and qualified human resources dedicated to the administration, management, and/or control of income-generating assets, with appropriate physical facilities in Panama.
2. **Strategic decisions:** Adoption of strategic decisions regarding operations and risk assumption in Panama.
3. **Operating expenses:** Incurring costs and operating expenses in Panama directly related to the income-generating assets (other than personnel compensation and facilities).

**Simplified Regime for Holdings:** Entities subject to the Law whose principal activity consists of holding equity interests or exclusively holding real estate need only have human resources and facilities in Panama and comply with annual reporting obligations.

## Outsourcing of Services

The Law expressly recognizes the possibility of outsourcing functions and services in Panama, with respect to human resources, physical facilities, and operating expenses, provided that the entity maintains adequate supervision and control.

## Excluded Entities

The Law excludes the following categories from the general regime, subject to due accreditation before the Ministry of Economy and Finance (MEF):

- Financial Entities: Entities supervised by the Superintendency of Banks of Panama.
- Insurers and Reinsurers: Entities supervised by the Superintendency of Insurance and Reinsurance.
- Securities Market: Entities and intermediaries supervised by the Superintendency of the Securities Market.
- Funds: Managers or administrators of investment funds, pensions, and regulated collective vehicles in Panama.
- Merchant Marine: Entities engaged in the commercial exploitation of vessels registered under the merchant marine registry of the Panama Maritime Authority, including shipowners, operators, and ship managers, with respect to income linked to regulated maritime activity.

**Important Note:** The exclusions are not automatic: the entity must actively demonstrate that it is licensed, that the income derives from its ordinary regulated activity, and that it maintains effective management and administration in Panama.

## Non-Compliance Tax Rate

Entities subject to the economic substance requirements that fail to comply with the conditions set forth in the Law will be considered non-qualifying.

Passive income from foreign sources of non-qualifying entities will be subject to a rate of 15% on net taxable income, of a final and definitive nature, per fiscal year. Deductions for duly documented costs and expenses directly related to the generation of passive income from foreign sources will be allowed.

Non-qualifying entities may credit the amount effectively paid abroad for the same tax.

## Recommended Next Step

If your Panamanian entity is part of a group with a presence in two or more jurisdictions and receives passive income from foreign sources, we recommend that you contact us for a **review of your structure**. This evaluation will allow us to determine, subject to the regulations to be issued in the following months, whether the economic substance regime is applicable and, if required, provide the necessary support to implement and maintain compliance with the economic substance requirements. Entities have the 2026 fiscal year to complete the review and implement the requirements before the entry into force in 2027.

*This communication is for informational purposes only and does not constitute legal advice regarding any particular situation. For the analysis of your specific structure, please contact us directly.*