B. Land Transportation

1. Transportation Contracts

In referring to general rules for transportation by land and sea of both persons and things, the Civil Code equates these rules to similar obligations of innkeepers in the custody and conservation of property. Carriers are liable for the loss or average of the things they receive unless it is proved that such was due to force majeure or act of God.

The Commercial Code deals with land transportation in detail in Articles 663 to 739.

The parties to a transportation contract are the carrier (porteador) and the shipper (cargador). A particular feature of such a contract is that it may be rescinded at the will of the shipper either before or after a trip has begun.

The shipper and the carrier may mutually demand a bill of lading (carta de porte) signed by both and stating the following in addition to anything required by special regulations: the full name and domicile of the shipper and of the carrier; the same data on the person to whom the shipment is to be delivered, or that it is to be delivered to the holder of the bill of lading; time and place for delivery; description of the goods, indicating their general quality, weight, number, and measurement and markings on the containers; cost of the transportation with a statement of whether it is found satisfactory and any advances to be made to the carrier; date of the shipment; any other stipulations; followed by the signatures of the parties.

Private stipulations not contained in the bill of lading have no effect whatever with respect to the consignee or third persons to whom the bill of lading may have been endorsed.

A bill of lading may be to a specified name, to the order of someone, or to bearer, and may be transferred by assignment, endorsement, or delivery. Any of these forms of transfer gives the holder the legal status of a subrogated person.

Public transportation enterprises have the obligation to receive and transport passengers and goods at prices fixed in their rate schedules, provided that the sender agrees to the provisions governing the shipment and other regulations of a general nature. Any refusal not supported by law renders the shipping enterprise liable to the injured party in a suit for damages.

2. Railway Legislation

The government is empowered to grant concessions to national or foreign enterprises for the construction and management of railroads. At the present time two regular railway lines are in operation in Panama: the Panama Railroad, crossing the isthmus, the concession for which is included in the treaties currently governing the Panama Canal, with management in the hands of Americans, service being limited to Colón and the Canal Zone since 1955; and the Chiriquí Railroad, constructed and managed by the Panamanian government, which regulates its rates, freight charges, personnel, exemptions, maintenance, schedules, etc., by laws, decrec-laws and executive decrees.
Panama has signed contracts with foreign juridical persons for the construction of branch lines in other provinces, but these contracts have never been carried out.

2. Highway Transportation

Various regulations govern transportation on national highways. In some cases the regulations limit the traffic of certain kinds of vehicles, which owing to their size and tonnage might endanger the safety of bridges and culverts, and in other cases limit traffic to a certain number of persons. For reasons of public safety or order the government is authorized to curtail highway transportation, and may suspend temporarily such transportation of persons or goods, partially or completely (in the case of epidemics, quarantine, disturbances, and so forth).

3. Automotive Vehicles

The circulation of automotive vehicles in the country is subject to traffic regulations and municipal ordinances. The registration fee for automobiles is collected by the municipalities, hence the license plate is issued by each district on the basis of the domicile of the owner of the vehicle. License plates are valid for one year. At the end of each fiscal year the vehicle must be inspected by the General Traffic Office to determine whether it is fit for use, and if it passes inspection and the municipal fee has been paid, the district treasury issues the appropriate license plate: private, commercial or special.

The General Traffic Office issues drivers licenses, for which an applicant must be 18 years of age and of good conduct as shown by a certificate issued by the Departamento Nacional de Investigaciones; he must prove his ability to drive a car, and must have committed no serious traffic violations which would disqualify him. If the requirements are met, a driver's license is issued for a period of four years, after which it must be renewed.

Currently the traffic authority has issued disciplinary regulations prescribing rather high penalties and fines for traffic violations, due to the high rate of automobile accidents in recent years and the high death rate caused by them.

C. Air Transportation

1. Registration of Aircraft

The decree-law governing domestic aviation in Panama entrusts the Civil Aeronautics Administration with maintaining a register (Registro de Matrícula) of aircraft. This register constitutes a record of: (a) government-owned aircraft other than military; (b) civilian aircraft for public transportation or aerial work, which are operated exclusively by natural or juridical Panamanian persons legally authorized to do so; (c) civilian aircraft in private use which belong to or are operated in Panama by natural or juridical persons, either nationals or foreigners.

For registration, the aircraft must meet the technical conditions prescribed by regulations and must not be registered in another country. Registration confers Panamanian nationality on an aircraft and must be requested by the owner or his agent. A registration certificate is issued to the owner or operator and must always be kept in a visible place in the craft.
An aircraft registered in Panama is prohibited from being registered in another country unless the Panamanian registration is canceled. In addition, a registration will be canceled if ownership of the aircraft is acquired by a person not falling within the three categories mentioned above or if the aircraft is totally destroyed or presumed lost according to law and when 90 days have elapsed after its disappearance. By cancelation of the registration the craft loses its Panamanian nationality.

2. Pilot's License and Registration

The Civil Aeronautics Administration issues and revalidates licenses and certificates of ability. The executive branch has issued regulations governing all matters relating to categories of pilots and other members of flight personnel.

The General Aeronautics Administration may recognize or revalidate licenses and certificates issued in a foreign country by competent authorities, provided the requirements under which they were issued or declared valid are at least equal to the minimum standards required by regulations in Panama for the issuance of such a license or certificate, and provided that the country in question will recognize and revalidate similar licenses issued in Panama.

The crew and other technical flight personnel in the service of any domestic aviation enterprise and commercial and transport aircraft registered in Panama must be of Panamanian nationality. However, airlines may utilize the services of foreign technicians until technically qualified Panamanian personnel can be trained, which must be done in a period no longer than one year.

For aerial work such as fumigation by air, field-hopping flights, etc., the executive branch may issue provisional permits to foreign pilots who come to the country to perform such work temporarily, provided no Panamanian personnel are available for such services.

The technical ground personnel of every foreign enterprise operating in the country must be Panamanian in the proportion prescribed in labor laws.

3. Flight Regulation and Control

The Aeronautics Code of Panama requires that the pilot of any aircraft flying over Panamanian territory must have a knowledge of the laws and regulations governing air navigation in the country.

In accordance with that Code no aircraft may fly over, land in, or depart from the national territory unless it meets the following conditions:

a) It must bear the nationality markings and registration number of the country wherein it is registered.

b) It must be in navigable condition.

c) It must be in charge of a flight crew whose members have valid licenses and certificates recognized in Panama.

d) It must have on board the documents required by law: registration certificate; certificate of navigability; appropriate license of each crew member; logbook; appropriate radio license, if there is a radio; a list of the names and points of embarkation and destination of any passengers; a manifest and bills of lading if cargo is being carried.
(e) It must comply with all flying and maneuvering rules prescribed in aviation laws and regulations of Panama.

By Panamanian law the executive branch has the authority, for reasons of security, to declare certain zones prohibited or restricted for air navigation in specified areas of the country. Danger zones may also be specified which might represent a danger to aircraft flying over such areas.

There are special prohibitions or restrictions on the transportation of goods not allowed in normal traffic: arms and munitions, explosives, flammable materials, passengers who are intoxicated or under the influence of narcotics, corpses or persons afflicted with contagious or mental diseases, etc.

Minimum safe altitudes have been fixed at not less than 1,000 feet over cities, inhabited areas, or gatherings of people, measured from the highest obstacle within a radius of 2,000 feet; for other places a minimum of 500 feet over land or water.

4. Liabilities for Damages

Under Panamanian law governing civil aviation the carrier is liable to payment of compensation for damages incurred by the death, injury or other lesion of any passenger if the cause of the damages occurred on board an aircraft or during takeoff or landing operations in any airfield or other landing place, including a place of forced or accidental landing.

The carrier is also liable for damages resulting from the loss, destruction, or damage of articles in the custody of a passenger, checked baggage, and cargo and damages due to negligent delay.

The limits of liability prescribed by law are: (a) for damages incurred by a passenger, B/8,300; (b) for loss, destruction or damage to hand baggage, up to B/33.20; (c) for loss, destruction or damage to cargo or checked baggage, up to B/16.60 per kilogram.

The operator of any civilian aircraft is also pecuniarily liable for damage or injury caused to persons or property of third persons on the ground.

5. Aviation Treaties in Force

Panama is a signatory to the following conventions on aviation:


d) Bilateral agreements:

With the United States, ratified by Law 18 of 1949.
With the United Kingdom of Great Britain and North Ireland, ratified by Law 101 of 1963.

With Colombia.

With Switzerland.
XV
TAXATION

A. General Provisions

It is a principle of Panamanian constitutional law that no one is required to pay a tax or similar charge that has not been established by law or that is not collected in the manner prescribed therein (Constitution, Art. 48). Likewise, no indirect tax or increase thereof may be collected until 60 days after promulgation of the law imposing such tax or increase.

The General Revenue Service (Dirección General de Ingresos) of the Ministry of the Treasury is the official entity in charge of the recognizance, collection, and supervision of the revenues, services, fees, taxes, excises, and fiscal charges pertaining to the state. Also participating in the activities of the national treasury, that is, in the collection of state funds, are the Post and Telecommunications Administration (Dirección General de Correos y Telecomunicaciones), the National Charity Lottery, the consulates of Panama, and for certain functions, the National Bank of Panama.

By constitutional mandate there is an independent entity, the office of the Comptroller General, which supervises, oversees, regulates, and controls the movement of public funds, and examines, reviews, and audits the government accounts. It receives from pertinent officials their reports on the fiscal affairs of national, provincial, municipal, and autonomous agencies and it audits the accounts of their responsible treasury officials.

B. Income Tax

I. General

The income tax is governed by the pertinent provisions of the Fiscal Code, supplemented by the Regulations for these provisions contained in Decree 60 of June 28, 1965. Income from any source within the territory of Panama, regardless of where it is received, enumerated in the decree cited, is subject to the income tax. The Fiscal Code defines a taxpayer as any natural or juridical person, national or foreigner, who receives taxable income. This also includes undistributed estates.

Income derived from the following activities is not considered as produced in Panama and hence is exempt from the income tax:

a) Invoicing, from an office established in Panama, the sale of merchandise or products for an amount greater than that for which said merchandise or products had previously been invoiced against the office established in Panama, as long as the merchandise or products moved solely outside Panama.
b) Directing, from an office established in Panama, transactions which are perfected, completed, or effected outside Panama.

c) Distributing dividends or participations of legal entities, when such payments are derived from income not produced within the territory of Panama, including income derived from activities mentioned in (a) and (b).

**Taxable income** is the difference or balance resulting after deducting expenses and other deductible items from the gross income or earnings. For tax purposes, **gross income** is the total, without deduction of any amount, of income in money, in kind, or in securities, in the following categories:

a) Wages, salaries, overtime, allowances, bonuses, commissions, pensions, retirement pay, fees, or other remuneration for personal services.
b) Profits or earnings from business, industrial, commercial or agricultural activities.
c) Leases or rentals of any kind, interest, income from copyrights, royalties, goodwill, trademarks, or patents.
d) Dividends or participation shares received by shareholders or partners from legal entities, pursuant to Article 701, Fiscal Code.
e) Profits obtained from the alienation of real or personal property, bonds, stocks and other securities issued by legal entities.
f) Profits or earnings of natural or juridical persons operating public utilities such as electricity, gas, or telephones on the basis of state or municipal concessions.
g) 50 or 75 percent of the receipts of local film distributors, depending on admission price and place of exhibition.
h) Commercial activities of natural or juridical persons established in international free zones.

2. **Deductions**

The law defines as deductible expenses or payments all such items incurred in the production of the income and in the conservation of its source, as well as the following: (a) donations to approved educational and charitable institutions; (b) dues paid to nonprofit entities, associations or trade unions; (c) interest payments.

Deductible items are covered in detail in Articles 29 to 71 of the Regulations, including general principles and deductions applicable to specific types of income. Deductions for depreciation are governed specifically by Articles 57 to 71, including a table of allowable percentages, beginning with the fiscal year 1963, contained in Article 65. A deduction for depletion is allowed in the case of mining and forestry exploitations (Arts. 67-68).

The following expenses are not deductible:

a) Personal or living expenses of the taxpayer and his family.
b) Expenses paid or incurred for construction or permanent improvements made to increase the value of any real or personal property, with the understanding that such construction or improvements are subject to depreciation or amortization.
c) Amounts spent on travel for recreation; club dues, fairs, entertainment and gifts that are not advertising.
d) Amounts paid or credited as a bonus. However, amounts paid to employees as a participation in profits, not exceeding 10 percent of the profits, are
deductible, as are bonuses and gifts paid during the Christmas season, up to the equivalent of one month's salary or a maximum of B/750 per employee.

e) Interest on loans, in any part in excess of the legal rate.

f) Interest on capital invested by a sole proprietor or on preferred shares of a company.

g) Gifts or contributions not included in paragraph one (a) of Article 697, Fiscal Code.

h) Losses incurred in a different fiscal year.

i) Expenses of local film distributors related to the producing enterprise.

j) Any other expenses which, although deductible, cannot be satisfactorily verified when requested.

3. Tax Rates

There are two different rates of the income tax, one applicable to juridical persons and one applicable to natural persons.

The schedule applicable to juridical persons is as follows:

<table>
<thead>
<tr>
<th>Annual taxable income</th>
<th>Tax on lower limit</th>
<th>Plus percentage to be applied to excess over lower limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>From $</td>
<td>To $</td>
<td></td>
</tr>
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<td>42</td>
</tr>
<tr>
<td>500,000.01</td>
<td>and over</td>
<td>45</td>
</tr>
</tbody>
</table>

The rates for natural persons are as follows:

<table>
<thead>
<tr>
<th>Annual taxable income</th>
<th>Tax on lower limit</th>
<th>Plus percentage to be applied to excess over lower limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>From $</td>
<td>To $</td>
<td></td>
</tr>
<tr>
<td>$0.01</td>
<td>1,000.00</td>
<td>2</td>
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<td>19</td>
</tr>
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</tr>
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</tr>
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</tr>
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</tr>
<tr>
<td>70,000.01</td>
<td>80,000.00</td>
<td>34</td>
</tr>
</tbody>
</table>
80,000.01 90,000.00 18,170.00 37
90,000.01 100,000.00 21,870.00 40
100,000.01 200,000.00 25,870.00 43
200,000.01 and over 68,870.00 46

In case of profits from alienations of property, the taxable income is the difference between the sale price and the sum of the basic cost of the property plus the cost of improvements made for conservation or to increase the value, necessary expenses of the transaction, and 7 percent annually of the basic cost for conservation. If there are two or more sales within one tax year, the total profit is the sum of the gain from each transaction, none of which may be listed as a loss for tax purposes.

The amount of the profit is divided by the number of years elapsed between purchase and sale. The result must be added to the taxable income from other sources during the year the alienation took place, to determine the rate applicable. This rate is multiplied by the total profit from the sale, the result being the tax that is due.

In the case of alienation of property acquired by gift or inheritance the basic cost is the amount appearing on the receipt for payment of the inheritance or gift tax.

In the case of rentals from buildings, the taxable income is the difference between the total value of the rentals from occupied premises in a building and permitted deductions, if the taxpayer proves that all or a part of the building was unoccupied during the tax year.

For enterprises producing films, the taxable income is taken as 15 percent of amounts received from local distributors of the films. Distributors are taxed on the basis of 50 percent of gross income if the films are exhibited in territory under national jurisdiction, or when not first showings if exhibited in the Canal Zone at an admission price not over B/0.40. The basis is 75 percent for first showings in the Canal Zone at an admission price of over B/0.40 (Art. 94, Regulations).

In the case of natural or juridical persons with businesses established in the Colon Free Zone or other free zone that may exist, the total tax is payable according to the general rates that are applicable, on the taxable income obtained from domestic transactions, defined as all deliveries from such zones made within the Republic of Panama, the Canal Zone, aircraft and vessels which use the facilities of the Canal Zone and which are not in coastwise trade. All employees of such natural or juridical persons, whether nationals or foreigners, also pay the tax.

Earnings obtained from the sale of bonds, shares and other securities issued by juridical persons (corporations) are taxable income whenever the seller customarily engages in such operations, and the same is applicable to the alienation of other personal property under the same circumstances.

In the case of dividends or participation shares, a shareholder or partner must pay the tax at the rate of 8 percent, which is withheld by the juridical person concerned. The amount thus taxed at source is thereafter not to be included in the income declaration.
Taxation of Free Zone Companies

Persons or companies with businesses established in the Colon Free Zone pay income taxes at the rates established in 1954, considerably lower than the 1964 rates. They are also entitled to a 90 percent discount on taxable income obtained from external operations. For this purpose, external operations are defined as those executed with foreign or national merchandise which leaves the areas of free international trade destined abroad. The full tax is payable on domestic operations at the 1964 rates.

These persons or companies may sign contracts with the government which protect them against increases in income taxes with regard to reexports for a period of up to 10 years. These contracts include other privileges; for example, the requirement that 75 percent of the work force be Panamanian is waived. Companies having contracts must post a bond in an amount to be fixed by the government. Prior to the 1964 law, it amounted to B/10,000. In the past these companies have benefited from any decrease in taxes while being protected from an increase. Nevertheless, they are still subject to the full income tax on domestic sales.

Employees of any person or company in the Free Zone are subject to full income taxes and to the social security system.

Net income of B/900 or less is not subject to the income tax when the 1954 rates are applicable, but if the net taxable income is over B/900 the entire amount is subject to tax rather than merely the excess. The net taxable income is subject to a surtax of 20 percent of the basic income tax. A foreign-controlled company which has no contract with the government and which declares its income in a country which allows a credit of the total or a part of the tax computed on the basis of 1965 rates must pay the total of the tax in Panama or an amount equivalent to the partial credit, whichever is applicable. The amount of such payment may not be less than 10 percent of the tax computed in accordance with the 1954 rates.

Persons or companies operating in the Free Zone are not required to pay the income tax on dividends or participation shares derived from income obtained by external operations. However, if the recipient declares the dividend in a foreign country the laws of which permit a credit of the total or a part of the tax computed on the basis of the 1964 rates, the recipient must pay tax in Panama on the amount of that credit.

Dividends or participation shares derived from income obtained by domestic operations are subject to the full 8 percent withholding tax on dividends. Free Zone companies are not required to withhold and report dividend taxes until dividends are declared and actually distributed.

Income of Free Zone companies derived from internal operations is subject to a complementary tax on dividends whether declared as dividends or not. As in the other cases, income derived from external operations is not subject to this tax. (Law 9 of December 23, 1964, and Decree 60 of June 28, 1965.)
The 1954 rates referred to are shown below:

<table>
<thead>
<tr>
<th>Annual taxable income</th>
<th>Tax on lower limit</th>
<th>Plus percentage to be applied to excess over lower limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>From $</td>
<td>To $</td>
<td></td>
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<tr>
<td>2,400.01</td>
<td>2,400.00</td>
<td>$ 48.00</td>
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<tr>
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<td>and over</td>
<td>252,387.00</td>
</tr>
</tbody>
</table>

5. Exemptions and Deductions

The following categories of income are exempt from the income tax:

a) Income of natural or juridical persons exempt by treaty or contract.
b) Income of the state, of municipalities, municipal associations, and of their autonomous and semi-autonomous institutions.
c) Income of churches of any denomination, conciliar seminaries, and religious or charitable societies.
d) Income of asylums, hospitals, orphanages and other similar institutions, if the income is devoted exclusively to charitable or welfare purposes.
e) Income from international maritime commerce of Panamanian merchant vessels legally registered in Panama, even if the transportation contracts are executed in Panama. Enterprises owning vessels registered in a foreign country are not subject to tax on income from a Panamanian source if the country of origin allows a reciprocal tax exemption for Panamanian vessels.
f) Interest from government securities.
g) Prizes paid by government lotteries and income from games of chance operated by the government.
h) Amounts received as compensation for labor accidents and insurance in general, support pensions, and social security benefits.
i) Property received as inheritance, legacy or donation.
j) Salaries and fees paid to members of the diplomatic corps accredited to Panama.
k) Salaries and fees paid to members of the consular corps accredited to Panama, unless in the country of origin a tax is imposed on the salaries and fees of the personnel of Panamanian consulates.
1) Interest earned on savings accounts kept in banking institutions established in Panama.
m) Interest paid to agencies of international organizations or of foreign governments.

From the income of individuals the following deductions may be made from the computed taxable income:

a) For the individual taxpayer, B/600.
b) For a married couple, B/700, if a joint return is filed.
c) For each dependent, as defined in the law and regulations, B/100 for each of the first two and B/150 for each additional dependent.
d) For each individual or married couple, submitting either joint or separate return, B/300 for medical expenses.
   For tax purposes, a married couple (pareja de cónyuges) includes persons legally married and also those who have lived as man and wife under stable conditions for at least five years, as attested to by two witnesses, when the income declaration is filed.
e) The official sectional minimum wage or salary is not taxed if it is the only income. This is B/0.25 per hour in places up to 20,000 population and B/0.40 per hour in cities with a larger population (Law 51 of 1959).

6. Procedure

Every natural or juridical person who must pay the tax for himself or for others must submit not later than March 15 a sworn declaration of income received in the preceding year as well as any dividends or participation shares distributed to shareholders or partners and any interest paid to creditors.

At the same time and on the same form the taxpayer must submit another sworn declaration of estimated income for the current year. The estimated income may not be less than was indicated in the sworn statement for the preceding year.

Persons whose sole income is the wages or salary received from an employer, who withholds the income tax, do not have to file tax returns. The employer must submit data on payrolls at the time he makes his own sworn declaration.

The tax is computed and paid on the basis of the declared estimate. Any adjustment between the sworn declaration and the estimated declaration covering the same year will be made on the first payment corresponding to the estimated declaration for the following year or on subsequent payments if necessary.

The tax may be paid by one full payment or in three equal instalments not later than June 30, September 30, and December 31. There is a surcharge of 10 percent for later payments, with an additional 10 percent if legal action is necessary.

In the case of permanent employees or casual employees residing in Panama, who work continuously for a minimum of one week for wages or salary or other
remuneration for personal services, the tax is payable during the month after the remuneration was earned. The managers, owners, employers or representatives of an enterprise must withhold the tax that is due, being jointly and severally liable with the taxpayer for payment, in accordance with rules contained in Articles 106-110 of the Regulations.

A fine of from B/10 to B/1000 may be imposed for violations of provisions of the income tax law, and failure to pay a fine may result in imprisonment.

C. Inheritance and Gift Taxes

1. General Principles

This tax is payable on the net amount of an inheritance allotted by reason of death to one or several persons and on the amount of any revocable or irrevocable gift.

In accordance with the Fiscal Code, a gift is presumed to have been made in the following cases, unless there is proof to the contrary:

a) Any of the following transactions between ascendant and descendant, between brothers and sisters, spouses, or between relatives within the second degree of affinity, including an intermediary if the property or rights become owned by the person in whose favor the gift was presumed to be made within one year after acquisition by the intermediary:

i) A sale, in which case the tax is on the difference between market value of the article sold and the price actually paid;
ii) An exchange, whenever the difference in values of the articles exchanged is more than 10 percent, the tax being imposed on the excess;
iii) Establishment of annuities or rights of usufruct, use or habitation;
iv) Dation in payment (i.e., discharge by delivery of something different from that called for by the contract);
v) Establishment of a trust;
vii) Any other act which transfers rights or property, the tax being imposed on the difference between the market value and the benefit given.

b) Acknowledgment or delivery of a right in a company to a person when it does not appear that such person has made a real and effective contribution
2. Tax Rates

The inheritance and gift tax is levied in accordance with a combined progressive scale.

<table>
<thead>
<tr>
<th>Degree of Relationship</th>
<th>Taxable Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>From</td>
</tr>
<tr>
<td></td>
<td>To</td>
</tr>
<tr>
<td>A. Descendants by blood or adoption; spouses</td>
<td>4 %</td>
</tr>
<tr>
<td>B. Ascendants by blood</td>
<td>4.25 %</td>
</tr>
<tr>
<td>C. Brothers and sisters and half-brothers and sisters; sons- and daughters-in-law</td>
<td>4.5 %</td>
</tr>
<tr>
<td>D. Collateral relatives to third degree of consanguinity</td>
<td>4.75 %</td>
</tr>
<tr>
<td>E. Collateral relatives to fourth degree of consanguinity; relatives by affinity, not mentioned, to second degree</td>
<td>5 %</td>
</tr>
</tbody>
</table>

Note: Relatives not included in foregoing groups, and nonrelatives

<p>|                                                             | From | 15,000.01 | 20,000.01 | 30,000.01 |
|                                                             | To    | 20,000.00 | 30,000.00 | 50,000.00 |
| A. Descendants by blood or adoption; spouses                 | 7.5 % | 9.5 %     | 11.75 %    |
| B. Ascendants by blood                                       | 7.75 %| 9.75 %    | 12 %      |
| C. Brothers and sisters and half-brothers and sisters; sons- and daughters-in-law | 8 %   | 10 %     | 12.25 %    |
| D. Collateral relatives to third degree of consanguinity     | 8.25 %| 10.25 %   | 12.5 %    |
| E. Collateral relatives to fourth degree of consanguinity; relatives by affinity, not mentioned, to second degree | 8.5 % | 10.5 %    | 12.75 %    |
| F. Relatives not included in foregoing groups, and nonrelatives | 9 %   | 10.75 %   | 13.25 %    |</p>
<table>
<thead>
<tr>
<th></th>
<th>A. Descendants by blood or adoption; spouses</th>
<th>B. Ascendants by blood</th>
<th>C. Brothers and sisters and half-brothers and sisters; sons- and daughters-in-law</th>
<th>D. Collateral relatives to third degree of consanguinity</th>
<th>E. Collateral relatives to fourth degree of consanguinity; relatives by affinity, not mentioned, to second degree</th>
<th>F. Relatives not included in foregoing groups, and nonrelatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>From</td>
<td>50,000.01</td>
<td>75,000.00</td>
<td>100,000.00</td>
<td>150,000.00</td>
<td>From</td>
<td>150,000.01</td>
</tr>
<tr>
<td>To</td>
<td>75,000.00</td>
<td></td>
<td>100,000.00</td>
<td></td>
<td>To</td>
<td>200,000.00</td>
</tr>
<tr>
<td></td>
<td>14 %</td>
<td></td>
<td>16.25%</td>
<td></td>
<td></td>
<td>14.75%</td>
</tr>
<tr>
<td></td>
<td>14.25%</td>
<td></td>
<td>16.5 %</td>
<td></td>
<td></td>
<td>14.5 %</td>
</tr>
<tr>
<td></td>
<td>15 %</td>
<td></td>
<td>17.25%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>21.75%</td>
<td></td>
<td>25.25%</td>
<td></td>
<td></td>
<td>22.5 %</td>
</tr>
<tr>
<td></td>
<td>22 %</td>
<td></td>
<td>25.5 %</td>
<td></td>
<td></td>
<td>22.25%</td>
</tr>
<tr>
<td></td>
<td>22.75%</td>
<td></td>
<td>26.25%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>23.25%</td>
<td></td>
<td>26.75%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
More than B/400,000.00

A. Descendants by blood or adoption; spouses 32.25%

B. Ascendants by blood 32.5%

C. Brothers and sisters and half-brothers and sisters; sons- and daughters-in-law 32.75%

D. Collateral relatives to third degree of consanguinity 33%

E. Collateral relatives to fourth degree of consanguinity; relatives by affinity, not mentioned, to second degree 33.25%

F. Relatives not included in foregoing groups, and nonrelatives 33.75%

The tax is payable with a deduction of 20 percent. In all cases the rates to be applied are those of the law in effect at the time of death or when a gift is made.

The first 1,000 balboas of the value of an estate or gift is not counted in the calculation unless the total value is in excess of B/3,000.

The tax must be paid within a year after the death of the principal but the gift tax is payable at the time the gift is accepted. There is a surcharge of 10 percent for late payment for the first year and another 5 percent for each additional year of delay.

Under the law, the following categories of gifts and inheritances are exempt from payment of the tax: (a) gifts and inheritances in favor of the state or its autonomous institutions, municipalities, and municipal associations; (b) gifts and bequests for the establishment or development of welfare institutions and educational establishments organized according to Panamanian law; and those made to institutions or juridical persons organized exclusively for charitable, educational or welfare purposes; (c) a "family homestead" established according to law; (d) gifts or bequests of not over B/1,000; (e) indemnity compensation paid because of the death of the principal; (f) life insurance; (g) funds paid by mutual societies due to death of a member; (h) gifts or inheritances paid to a person physically or mentally incompetent to earn a livelihood, so ruled by court decision, if the amount is not over B/5,000; (i) any other cases provided for in special laws.

The deductions that may be made from a total estate are limited by law to the following: debts which existed on the date the estate was opened proved to be chargeable in full to the deceased; burial and funeral expenses up to a maximum of B/500; compulsory payments for support; the value of the community property
belonging to the surviving spouse. Certain debts may not be deducted: those contracted in favor of descendants, spouse, ascendants, or legal or testamentary heirs; debts which had prescribed as of the date of death; debts which would fall due only as a result of the death; those acknowledged only in a will.

False declarations, intentional omissions, etc., are punishable by a fine of double the amount of tax evaded. Any declaration which decreases the amount of a gift or bequest and the corresponding tax is presumed intentional unless a justifiable mistake can be proved.

D. Other Taxes

1. Import and Export Duties

Foreign goods arriving in Panama are subject to an indirect tax or import duty according to the provisions of special tariff laws. Goods which arrive supported by documents to the order of or through banks, commercial companies, or commission merchants established in territory of the Isthmus which is not under the jurisdiction of Panama (that is, the Canal Zone) must pay a surcharge of 50 percent ad valorem.

The present import tariff is contained in Decree-law 25 of September 23, 1957 (published in the Gaceta Oficial of October 21, 1957), with subsequent amendments.

Exempt from payment of import duties are the baggage of travelers and in the case of immigrants or Panamanians returning from a foreign domicile their used household effects (or new articles not over B/500 in value). Other exemptions include the equipment, effects, and animals of theatrical companies, circuses, and exhibitions; scientific, artistic, or industrial collections destined for duly recognized expositions; articles brought in to be improved or repaired; automobiles imported by tourists; and samples without commercial value meeting certain specifications.

All products of Panama may be exported with the exception of: narcotic drugs, unless for medicinal or scientific purposes; those of prime necessity, when temporarily scarce; others specified by the executive branch for reasons of economic interest to the country.

There are no duties on exports with the exception of the following:

a) Gold, silver, and platinum, in crude forms, which are subject to a duty of 1 percent ad valorem.

b) Bananas, subject to a duty of 2 centesimos per stem.

c) Scrap iron—B/4. per metric ton
   Copper scrap and waste—B/40. per ton
   Brass scrap and waste—B/24. per ton
   Scrap and waste, other metals—B/4. per ton.

d) Natural resources, pursuant to contracts made with the national government, or prescribed in special laws.
2. **Sales or Consumption Taxes**

No such taxes exist in Panamanian laws.

3. **Business Licenses**

Book IV, Title X, of the Fiscal Code contains a special schedule for computing the tax charged for a business or industrial license. The amount is in proportion to the capital of the enterprise, as follows:

<table>
<thead>
<tr>
<th>Amount of Capital (balboas)</th>
<th>Amount of Tax (balboas)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 500.00</td>
<td></td>
</tr>
<tr>
<td>From 500.01</td>
<td>20.00</td>
</tr>
<tr>
<td>From 1,500.01</td>
<td>30.00</td>
</tr>
<tr>
<td>From 3,000.01</td>
<td>50.00</td>
</tr>
<tr>
<td>From 5,000.01</td>
<td>100.00</td>
</tr>
<tr>
<td>From 10,000.01</td>
<td>150.00</td>
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<tr>
<td>From 20,000.01</td>
<td>250.00</td>
</tr>
<tr>
<td>From 50,000.01</td>
<td>300.00</td>
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<tr>
<td>From 100,000.01</td>
<td>450.00</td>
</tr>
<tr>
<td>From 250,000.01</td>
<td>600.00</td>
</tr>
<tr>
<td>From 500,000.01</td>
<td>750.00</td>
</tr>
<tr>
<td>From 750,000.00</td>
<td>900.00</td>
</tr>
<tr>
<td>Over 1,000,000.00</td>
<td>1,000.00</td>
</tr>
</tbody>
</table>

A natural person engaged in commerce or industry pays this tax according to the capital of each of his establishments, even if they are branches of a main establishment covered by a license. Juridical persons pay the tax according to the total capital of all establishments.

This tax must be paid during the first three months of each year, the penalty for late payment being a surcharge of 10 percent. The first annual payment is due at the time of application for the license.

The concept of capital on which the amount of this tax is based is the value of the net assets as shown on the latest balance sheet submitted with the declaration of income for tax purposes. The value of the net assets is the difference between total assets and total liabilities, not including amounts that one branch or subsidiary owes to another or to a home office located abroad.

4. **Stamp Taxes**

The stamp tax is paid either by the use of stamped paper or by affixing stamps to the document concerned or receipt showing payment. There is only one class of stamped paper, with a value of two balboas.

Stamped paper must be used in the following cases: (a) applications, petitions, and other writings addressed to any public official, authority or body; (b) affidavits, bills, receipts, copies, certificates, etc., to be used officially or for legal proceedings, or that must be issued by some public official, authority, or employees at the request of a private individual; (c) notarial records and the copies or certifications thereof issued by the notary; (d) closed wills.
Tax stamps are issued in denominations of one, two, three, five, ten, twenty, forty, and sixty centimos, and one, five, ten, and twenty balboas. The Fiscal Statute contains a detailed list of the documents to which a stamp tax must be affixed.

One centimo: sight drafts issued or payable in Panama, regardless of amount; drafts issued or payable outside Panama but negotiated there, for each 100 balboas or fraction thereof; receipt for house rent, not over 50 balboas; all receipts not included in another category, for each 10 balboas or fraction.

Two centimos: pawn tickets; account books required to be kept by merchants, for each page.

Five centimos: time drafts drawn outside Panama but payable therein, for each 100 balboas or fraction thereof; all checks.

Ten centimos: drafts drawn in Panama and payable therein, for each 100 balboas or fraction; any document containing an act, contract, or obligation for an amount over 10 balboas and not subject to other special tax, which concerns a matter subject to Panamanian jurisdiction, for each 100 balboas or fraction thereof.

Twenty centimos: landing permits of vessels and aircraft.

Fifty centimos: ships' bills of lading, consular invoices, declarations of merchandise, when such documents are issued in Panama for foreign ports; cablegrams and radiograms sent abroad.

One balboa: customs clearances over 10 balboas in value, one copy going to the interested party, apart from any other stamp required by other legal provisions; passenger tickets or travel orders issued in Panama regardless of where ordered, for travel abroad or travel to Panama, one stamp per "travel sector". Sea voyages are divided into four sectors. Students and certain others are exempt.

Two balboas: cargo manifests, crew lists, unloading permits, health clearance papers, and other port documents, for vessels in foreign trade and in excess of five tons capacity; diplomas issued by educational institutions or revalidated if issued abroad; certificates issued by consular and diplomatic officials abroad, if no other fee is specified; first authentication of signature of a Panamanian or foreign official, unless some other fee is specified; registration of national or foreign works; documents which indicate no amount or in which no value can be assigned; applications to obtain customs exemption for an amount over 25 balboas; the envelope of any closed will.

Ten balboas: passports or equivalent documents issued to Panamanians, except to students and seamen, and tourist cards; certificates of professional qualification issued by public agencies or officials; concessions for exploitation of national resources, unless taxed according to a stated value; legal copies of customs exemptions granted.

Twenty-five balboas: provisional naturalization certificates.

Fifty balboas: permanent naturalization certificates.
The law also requires the use of a special "soldier" stamp (soldado de la Independencia) of five centesimos, to be affixed to public instruments, certifications, copies in general, registrations of documents, tax receipts, invoices of wholesale sales of over two balboas, export documents in general, landing permits, powers of attorney, business licenses, surety bonds, every carton of imported cigarettes, all bottles of perfume, and admissions to public entertainment priced at over thirty-five centesimos. Bottles of domestic or foreign liquors and cartons of domestic cigarettes must bear a regular two centesimos stamp in lieu of the "soldier" stamp.

The denomination of regular tax stamps to be affixed to admissions to public entertainments varies according to the price of the ticket, up to 5 centesimos for a price of over 60 centesimos.

5. Real Property Taxes

A tax is imposed on land located in territory under the jurisdiction of Panama and on buildings and other permanent constructions erected on such land. The tax is not imposed on real property having an assessed value of not more than B/500.

The progressive rates of this tax are as follows:

- 0.75% on assessed valuation between B/500 and B/5,000.
- 1.00% on assessed valuation between B/5,000 and B/20,000.
- 1.25% on assessed valuation between B/20,000 and B/50,000.
- 1.375% on assessed valuation between B/50,000 and B/75,000.
- 1.50% on assessed valuation of over B/75,000.

An additional tax is imposed on idle lands (impuesto sobre tierras incultas) amounting to 1.50 balboas per hectare. Idle lands are defined as privately owned rural lands, with an area of more than 500 hectares which do not include a due proportion of plantings, or prepared lands for natural or cultivated pastures, or are not used for any specific commercial or industrial activity.

6. Miscellaneous Taxes

Tax on vessels. A tax is levied on vessels registered in the national merchant marine, excepting those that are government-owned (including municipal) or those valued at less than 1,000 balboas. The tax is 10 centesimos per year per net ton of registry, for vessels engaged in international trade, and 1/2 percent of value for other vessels.

Liquors. A tax is levied per liter of rectified alcohol, aguardiente, whiskey or gin used in the manufacture of liquors or a product thereof, amounting to B/0.02 2/3 per degree of alcohol. The tax on wines manufactured in Panama is 5 centesimos per liter. Beer produced in the country is subject to a tax of 8 centesimos per liter.

Pursuant to the Fiscal Code, establishments engaged in the wholesale sale of alcoholic beverages must pay an annual tax of B/1,200 in the districts of Panama and Colón; B/900 in the districts of David and Barú; and B/600 in other districts of the country.
Sugar production. The tax on sugar produced in the country is 25 centesimos per quintal of sugar.

Slaughterhouse tax. A tax is imposed on the slaughtering of animals, including cattle, hogs, sheep and goats, at varying rates per head, by sex, per weight, etc., and differing by locality.

Markets. Public markets owned by private individuals and which operate in places where government-owned markets are established, are subject to a monthly tax of 10 percent of the rentals collected from stalls and other sales premises.

7. Municipal Taxes

Law 8 of February 1, 1954, which governs municipalities, enumerates the various categories and items that may be taxed by municipalities. The list contains 48 different categories, including persons such as commission agents, distributors, factory agents, traveling salesmen, but also advertising, permitted slot machines, barbershops, sawmills, pool halls, filling stations, juke boxes, pawnshops, boarding houses, laundries and dry cleaners, cemeteries and funerals, quarries, night clubs, building construction, public amusements, bullfights, etc., motion picture houses, horseracing, factories (listed in detail by products), florists, photographers, garages, hotels and restaurants, bakeries, weights and measures, dogs, beauty parlors, vehicles, and numerous other items.
XVI

LABOR AND SOCIAL LEGISLATION

A. General Principles

Chapter 3 of Title III (Individual Rights and Duties) of the Constitution is devoted especially to labor. Among the fundamental principles enunciated the following should be noted:

a) Work is a right and a duty of the individual. The state shall employ the resources at its disposal to provide employment for all who lack it and shall ensure to every worker the economic conditions necessary for a decent existence.

b) A minimum wage for every worker in the service of the state or in public or private enterprises or of private individuals.

c) An equal wage or salary for equal work under identical conditions.

d) The right of union organization is recognized for employers, employees, workers and professionals of all classes.

e) The right to strike and to conduct a lockout.

f) A maximum working day of 8 hours for daywork, with a working week of up to 48 hours. The maximum for night work shall be 7 hours. Overtime shall be remunerated with an extra payment.

g) Shorter working hours for minors between 14 and 18 years of age. Prohibition of work by persons under 14 and of night work by those under 16.

h) A weekly day of rest and paid vacations.

i) All stipulations that imply a waiver, diminution, modification, or relinquishment of any right recognized in favor of a worker are void, and con-
m) It is a duty of industrial enterprises, within the scope of their specialties, to establish schools of apprentices for the purpose of promoting labor education among the children of their workers or associates.

n) A labor jurisdiction is established to which are submitted all controversies that originate between capital and labor.

o) A basis of social justice for the regulation of the relations between capital and labor, so that a worker may be guaranteed the necessary conditions for a normal life, and capital shall have an equitable return on its investment.

B. Protection of Labor

1. Working Hours

In determining working hours, daywork is counted from 5 a.m. to 7 p.m. and night work from 7 p.m. to 5 a.m. If the working period is mixed, it is considered night work if more than 3 hours fall within the time indicated. The maximum workday for daytime work is 8 hours, with the corresponding workweek of up to 48 hours. The maximum for night work is 7 hours a day and up to 42 hours for a workweek. For a mixed day the maximum is 7 1/2 hours a day and 45 hours for the week. A rest period between the halves of a day must be at least half an hour.

Any effective work which exceeds the foregoing limits constitutes overtime and must be remunerated accordingly: 25 percent over the daily wage for daywork; 50 percent of the day rate when overtime is worked during night hours; 75 percent of the wages for night work when prolonged during night hours.

2. Weekly Rest

A weekly day of rest is obligatory, preferably on Sunday. However, any other period of 24 consecutive hours may be designated for another day, such as a Monday when a holiday falls on Sunday; an additional day, when the day of rest comes on a holiday, etc.

Work on Sunday is remunerated at 50 percent above the regular wages. Work performed on a holiday or day of mourning decreed by the executive is to be remunerated at 150 percent of the regular wages. This includes payment for the day of rest.

3. Vacations

Under the Labor Code every worker is entitled to annual leave with pay, according to the following rules:

a) Thirty days after 11 months of continuous work, at the rate of one day for every 11 days of work. Weekly days of rest, national holidays, or justifiable absences do not interrupt the continuity of service.

b) Payment of one month's wages or salary when remuneration is contracted by months, or four and one third weeks if contracted per week.

c) In the case of workers paid by the hour or day the total remuneration for 11 months is divided by the number of regular working days and the resulting quotient is multiplied by the number of days of leave granted.

d) The remuneration that a worker is to receive must be paid three days prior to the date when a vacation is to begin.
e) A worker who terminates his employment without having completed the leave period to which he is entitled shall be paid in money for the time lacking.

Vacation time may be accumulated up to two full periods by agreement between worker and employer, with notification to be made to the labor authorities.

4. Wages

Wages are determined by a labor contract, and they may be stipulated freely but cannot be less than the minimum fixed by law. Wages may be stipulated per month, per fortnight, per week, per day or by the hour; by the piece, task, or job. They may be paid in money or in kind, or by a share in profits, sales, or collections made by the employer.

Wages must be paid in legal tender if stipulated in money. Payment in promissory notes, tokens, coupons, or other device representing money is prohibited.

A minimum wage is now guaranteed by the Constitution, to be fixed periodically in accordance with the peculiarities of each region and of each industrial, commercial, or agricultural activity. Work paid for in a lump sum must be fixed so as to ensure the minimum daily wage equivalent.

The minimum wage is unattachable except for payment of obligatory support as determined by law. Neither may work tools be attached.

The minimum wage is fixed periodically by the Ministry of Labor, Social Welfare and Health on the basis of reports submitted by the National Minimum Wage Commission, composed of the inspector general of labor, the head of the statistics division of the Comptroller General's Office, the director of the Division of Agricultural Economy in the Ministry of Agriculture, Commerce and Industry, one representative of the national association of labor unions, and one representative of the national association of employers.

The Minimum Wage Commission recommends the wage rates to be paid in the various provinces, regions, and localities of the country; it oversees the enforcement of decrees governing the minimum wage and rules on applications for revisions submitted by employers or workers.

Minimum wages must be fixed every two years, or oftener in exceptional cases.

The total amount paid as wages to a Panamanian worker may never be less proportionally to the total received by a foreign worker in the same category, including in the computation any bonuses, gratuities, and other allotments or benefits granted.

An employer may deduct from normal wages amounts paid as a share in profits, up to 10 percent, and bonuses and Christmas aguinaldos, up to the equivalent of one month's wages, providing the total does not exceed B/750. (Law 9 of 1963.)