Maksym Stepanenko

Panama: Territorial Tax, Offshore Structures, and Life in the Tropics

How to use Panama's territorial tax system for legal tax optimization

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Innova Publishing · 2026

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CHAPTER 1

Territorial Tax: Why Panama Exempts Foreign Income

Panama is a Central American country with a population of 4.4 million. Its capital, Panama City, is one of the most developed cities in Latin America. Thanks to the Panama Canal, the country has an economic infrastructure far more developed than its neighbors.

The principle of territorial taxation: Panama taxes ONLY income received from Panamanian sources. If your income comes from foreign clients, foreign investments, or foreign activity, it is not taxed in Panama, whether by corporate or personal tax. This is set out in Panama's Fiscal Code and has been in effect for decades.

What counts as a "Panamanian source": active income from activity on Panamanian territory. Income from Panamanian clients. Income from managing Panamanian assets (renting out Panamanian real estate). Income from work for a Panamanian company (if the work is performed on Panamanian territory).

What is NOT taxed: consulting for clients in other countries. SaaS sales to foreign users. Investment income from foreign stocks and bonds. Dividends from foreign companies. Royalties from foreign sources. Income from activity performed outside Panama, even if you are a Panama resident and the money arrives in a Panamanian account.

Rates on Panamanian income: Personal Income Tax: progressive, 0–25%. Up to $11,000 per year: 0%. $11,001–50,000: 15%. Above $50,000: 25%. Corporate tax: 25% flat rate. ITBMS (VAT): 7% standard. 10% for alcohol and hotels. 15% for tobacco. For foreign income: 0%.

A practical scenario: you live in Panama. Your business is a SaaS platform for American clients. Income: $200,000 per year. All of it comes from the US (a foreign source). Panamanian tax: $0. In

addition, there are no taxes on bringing this money into Panama. No capital gains tax on the sale of foreign stocks. This is legit, not a scheme: it is how Panamanian law works for everyone.

Panama vs. the UAE on taxes: both give 0% on foreign income. The UAE: a higher cost of living, zero corporate tax (on Free Zone foreign income), better for Asian and MENA connections. Panama: significantly cheaper ($30,000–$50,000 per year for a family vs. $80,000–$100,000 in the UAE). Panama: the US dollar is legal tender, so there is no currency risk. Panama: closer to the US market and has strong US relations.

CHAPTER 2

The Pensionado Visa and Other Paths to Residency

Panama offers some of the most accessible residence permit programs in the world. The well-known Pensionado Visa does not actually require retirement age; all you need is a stable passive income.

Pensionado Visa: one of the most popular residence permit programs for expats in the world. Requirements: income from a pension, social security, dividends, rent, or other passive sources of at least $1,000 per month. There is no age limit, despite the name “pensionado.” Anyone who receives $1,000 per month in passive income can apply. Documents: apostilled financial statements showing regular income. A police clearance from the country of citizenship. A medical certificate. A passport. Review time: 2–4 months.

Pensionado benefits: discounts on medicine (20–50%). Discounts on dental and medical care (15–20%). Discounts on airfare (25%). Discounts at restaurants (15%). Discounts on cultural events and entertainment. One of the most “generous” residence permit packages in the world.

Friendly Nations Visa: for citizens of 50+ “friendly” countries (including most EU countries, the US, Canada, Israel, and Ukraine). Requirements: establish economic ties with Panama: open a Panamanian bank account ($5,000 minimum), OR create or buy a Panamanian company, OR get a job in Panama. Review time: 2–4 months. There is no minimum income requirement.

PermaResident (permanent residency): Qualified Investor: an investment of $300,000 in real estate, government bonds, or deposits. Immediate permanent residence. No minimum stay. Panama Reforestation Visa: an $80,000 investment in certified forestry projects. Popular among environmentally minded expats.

The path to citizenship: 5 years of legal permanent residence gives you the right to naturalization. Requirements: Spanish (an exam). A clean criminal record. Payment of taxes. Real physical presence in Panama. Panamanian citizenship allows dual citizenship. The passport gives visa-free entry to 120+ countries.

CHAPTER 3

Panama Corporation: Anonymity and Flexibility

A Panama Corporation (Sociedad Anónima, or S.A.) is one of the most flexible corporate instruments in the world. It has existed since 1927, and the legislation has been carefully refined over decades.

Main characteristics of a Panama SA: shareholder anonymity: bearer shares historically gave complete anonymity. After the Panama Papers (2016) and FATF pressure, the rules tightened. Registered Shares with nominated shareholders are possible. Bearer shares have been prohibited for “live” use since 2015, but they exist in immobilised form. Flexibility of structure: an SA can have from 1 to an unlimited number of shareholders. 3 directors (mandatory), who can be nominees. A Registered Agent is mandatory. A Registered Office in Panama.

Taxation of a Panama SA: corporate tax of 25% on Panamanian income. Foreign income: 0%. A special regime for holding companies: the Headquarters Law (Law 41 of 2007), for multinationals using Panama as a regional HQ. Significant tax benefits.

Panama Foundation (Fundación de Interés Privado): a Private Foundation is used for estate planning, asset protection, and succession planning. It pays no taxes on foreign income or capital gains. It is not a company but a separate legal form. The founder transfers assets to the Foundation, and the Foundation manages them in the interests of the beneficiaries. It is similar to a Liechtenstein Anstalt or a Swiss trust.

Registering a Panama Corporation: through a registered agent (a lawyer) in Panama. Cost: $800–1,500 (basic registration). Annual maintenance (registered agent plus fees): $500–800 per year. Timeline: 1–3 business days after filing.

International reputation: Panama lost part of its reputation after the Panama Papers (2016). The FATF placed Panama on its grey list (it was notified). Work on improving AML/KYC compliance is under way. Grey list status can complicate banking for some structures. For legal international business, the Panama SA remains practical. For plainly evasive schemes, the risks have grown.

Legalidad: a Panama Corporation is by itself an entirely legal instrument. What makes it illegal is how it is used: to hide income that must be declared in your country of residence, to launder money, or to violate CRS/FATCA reporting. Used properly, it is a legal corporate instrument.

CHAPTER 4

Life in Panama City: Costs and Reality

Panama City is one of the most unexpected cities in Latin America. Modern skyscrapers in the style of Miami sit next to the colonial architecture of Casco Viejo. Life here is cheaper than in Europe, but much better organized than in most of Central America.

Districts: Miraflores/Casco Viejo is the historic center, touristy and expensive to rent in. Bella Vista/Marbella is the business center, with restaurants and good safety. El Cangrejo is popular with expats and has nightlife. Paitilla/San Francisco is residential and family-oriented, with good infrastructure. Condado del Rey is a suburb, family-oriented, with more affordable prices. Coronado and El Valle are outside the city, with a beach or mountain lifestyle.

Cost of living: rent for a 1BR in Marbella: $800–1,500 per month. Rent for a 1BR in Bella Vista: $600–1,000 per month. Buying an apartment in El Cangrejo: $100,000–200,000. A restaurant meal: $8–20. Groceries: comparable to the US in import stores, cheaper at local markets. Uber: $3–8 per ride. The Metro (yes, there is one!): $0.35 per ride. Electricity: expensive (air conditioning runs year-round). Water: cheap. Total for one person: $2,000–3,500 per month, comfortably.

Safety: Panama City is SAFER than many Latin American cities. Not by Western European standards, but much safer than Colombia, Honduras, or Guatemala. There are areas worth avoiding (El Chorrillo). In expat districts, safety is good. Gated communities and security in condos are standard.

Climate: tropical. 25–32°C year-round. Two seasons: dry (December–April) and rainy (May–November). Humidity is high. Nearby: beaches on the Pacific Ocean (1 hour) and the Caribbean Sea (1.5 hours). Mountains: Boquete is 4 hours away, with a cool climate and an expat community.

Healthcare: Hospital Nacional and Clinica Hospital San Fernando are excellent private hospitals with US-trained doctors. Healthcare is much cheaper than in the US. Without insurance: a consultation is $50–150. With private insurance ($1,500–3,000 per year): practically free.

Expat community: a large American and Canadian community (PCCA, the Panama-Canada-Caribbean Association). AMCHAM (the American Chamber of Commerce). A growing Russian-speaking community. International Living Magazine traditionally ranks Panama in the top 3 expat destinations in the world.

CHAPTER 5

Banking in Panama

Panama’s banking system is one of the most internationalized in the world. More than 80 banks, including branches of all the major international banks. The secret of its success: the Panama Secrecy Laws (weakened but still in place) and the territorial principle of taxation attracted international capital.

Types of banking licenses: General License Banks can work with clients inside and outside Panama. International License Banks handle offshore operations only (no Panamanian clients). Representative offices: no banking operations.

Major banks in Panama: Banistmo (Grupo Bancolombia) is one of the largest. BAC Panama. Banco General is the largest local bank. Multibank. Banco Nacional de Panama (state-owned). International: HSBC Panama, Citibank Panama, Scotiabank Panama, and Bladex.

Opening an account as a non-resident: possible, but it requires extensive documentation. Source of Funds (SoF) is the most important thing. You need to show that your funds are of legitimate origin. Banks avoid PEPs (politically exposed persons), clients from high-risk jurisdictions, and those connected with crypto or unlicensed gambling. The recommended approach: open the account AFTER you get residency (the Friendly Nations Visa or Pensionado). Then it is much easier. Use a professional registered agent or lawyer, since they know the requirements of each bank.

After you get residency: banks are more lenient toward residents. Banco Nacional de Panama is the most accessible for new residents. It is useful to have a Panama Corporation for a corporate account. All transactions go through the CRS (Common Reporting Standard); Panama has participated since 2018.

Alternatives for getting started: Wise works in Panama for personal needs. Payoneer accepts international payments. Wise

Business serves corporate needs until you open a traditional account. A USD account means no currency conversion (the dollar is Panama’s official currency).

What next

Thank you for reading “Panama: Territorial Tax, Offshore Structures, and Life in the Tropics”.

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