

FREQUENTLY ASKED QUESTIONS PANAMA

PROPERTY AND TITLE

Q: What is the procedure to buy property in Panama?

A: Properties can be acquired by non-Panamanian buyers very much like in any other country. A contract or promise to buy is normally signed between the buyer and the seller, a down payment is made and the balance is paid upon completion. Title is Panama is witnessed before a Notary Public and such title is the registered in the Panamanian Land Registry. Title is freehold and in perpetuity.

Q: What are the guarantees against any defects hidden or apparent on the construction after delivery?

A: In accordance with the Civil Code of Panama, the buyer may claim damages against defects of the construction for a period of 10 years after the construction and delivery of the property.

Q: Who insures the property after completion?

A: Normally the structure of the property is insured through the Community of Owners and the owner pays a contribution to that insurance together with the costs of maintenance of the property. The contents of the property and fittings should be insured separately.

PAYMENTS AND TAXES

Q: What are the taxes at the time of completing the transaction?

A: There is no VAT on the first purchases neither transfer tax to be paid by the buyer at the time of completion.

However, on every sale of property, the vendor must pay transfer tax on the value of the property unlike most countries where the buyer pays for it. This is levied at a rate of 2% on the sale price or cadastral value of the property whichever is higher.

Q: Are there any others expenses?

A: Yes. The purchaser will have to bear in mind the lawyer's fees (1-1.5%), Notary's fees 1.25% and Registry's fees 1.2%, all of them calculated over the purchase price, making an approximate total of 3,5%.

Q: What taxes do I need to pay on an on going basis as owner of property in Panama?

A: Property enjoys a period of exemption of the real estate tax depending on its value.

A new law has been passed whereby new property that has obtained a building licence prior to September 2006, shall enjoy a 20 year exemption from this annual tax. For new properties with building permits granted after that date, the exemption will depend on the value of the property. For example, properties with values between 100,000 and \$ 250,000 USD will have a 10 year exemption and for those with a value exceeding \$ 250,000 USD the exemption will be for 5 years.

Once elapsed the exemption period this tax is levied a progressive rate between 0,5% and 2,1%.

An annual tax of 120 USD is also payable on an annual basis to the Municipality for cleaning services.

In Panama, there is no tax on Patrimony (wealth tax).

Q: What are the costs involved acquiring the property in the name of a company?

A: The same as those for an individual. The cost of setting up a company or foundation will amount to approximately € 2 000 euros.

It is important also to take into account the costs of maintenance of a Company payable on an annual basis as follows:

-Legal Fees which amount to approximately € 250 euros a year.

-Board of directors' fees which amount to approximately € 300 euros a year.

Q: Is it advantageous to buy on the name of a company?

A: It is possible to use a Panamanian corporation or any other offshore vehicle or Foundation to become the owner of the property. Corporations organized in accordance with the laws of the Republic of Panama constitute an attractive and beneficial vehicle to perform real estate investment.

The main advantage to buy in the name of a Company being the possibility to avoid 2% transfer tax and 10% capital gain tax at the time of the sale as the shares of the company can be transferred instead of transferring title of the property. Equally in the case of a Private Foundation, the appointment of substitute beneficiaries avoids the cost of transferring the property unless it is to a third party.

Q: What is the Capital Gains Tax rate?

A: The seller is obliged to pay the tax on the total profit of the sale at a rate of 10% on the profit in most cases.

Q: What are the rates for Income Tax?

A: Non-resident individuals pay income tax on the profits or income generated in Panama and the tax is based on a progressive tariff. It is assumed that the only income will be that arising from the rental of the property. The first 9.000 USD of net income are tax exempt. Higher income pays tax at rates between 7,3% and 27%. For example, those with a rental income above \$ 30,000 US dollars pay \$ 4,705 US dollars for the first \$30,000 and 27% on any figure above that (the maximum income tax rate).

Corporations pay taxes at a single rate of 30%.

Q: Can I take all my money out of Panama when I sell? What is the official currency?

A: There are no liens for the transfer and circulation of money, except for the obligation of every person, entering the country, to declare the importation of money or securities, in any way exceeding the amount of 10.000 USD, as well as, to report the source of monies exceeding this amount to the banking entities in any bank transaction.

The official currency of the Republic of Panama is the balboa and, the United States Dollar USD circulates freely in the country. There is no restriction or fiscalization in the currency exchange.

Q: What are the rates for death duties?

A: There are no death duties in Panama. In the event of death of a person holding assets in Panama, the appointed beneficiaries either by way of Will or by Court in case of a person dying intestate, must start administrative proceedings in Panama prior to the registration in the name of the beneficiaries of the asset.

To avoid this procedure and its costs, it is advisable to set up a Private Foundation that allows the beneficiaries of the Foundation to appoint substitute beneficiaries thus avoiding the legal costs and procedures of a succession.

OTHERS

Panama is considered to be one of the countries offering the most appeals to retirees at a world level.

Panamanian permanent residence and/ or nationality can be obtained fairly quickly depending on the level of investment on real estate and/ or deposits in Panamanian Banks.

Panamanian or foreigners residing in the national territory being 55 or more for women and 60 or more for men, and all retirees or pensioners regardless of gender, shall enjoy benefits such as discounts in land and air transportation, hospitals, medicines and prostheses, hotels, entertainment activities, water, electricity and telephone bills, technical and professional services as well as preferential rates for loans and banks commissions

CONTACTS

Q: What do I need to do once I have decided to proceed with the purchase?

A: Contact one of our lawyers at Legalex Group who will guide you through the process and clearly explain your situation, the costs and fees involved, as well as the necessary searches on the title deed. For that, please call the numbers below or email directly your instructions to one of us:

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