

Law 41 Legislation – Improving the Panama Investment Climate

Back in August this year, Law 41 was enacted. This piece of legislation is one that has not generated as much interest in the mainstream media as it should have, because it is one of the most important pieces of legislation that this country has produced in the last decade for improving the investment climate. It has the potential of converting Panama into the jurisdiction of choice for regional corporate headquarters for Latin America.

Main features of this law are:

1. **Applicability.** It applies to companies that offer and sell administration, accounting, management, logistics and other services to its own affiliates, subsidiaries or parent companies only.
2. **Foreign employees limit exemption.** The Labor Code of Panama places a ceiling on the percentage of foreigners a company may have among its personnel. The actual percentage varies according to special circumstances, but the maximum is 15%. However, with this law, multinational companies covered by this law will be exempted and will be able to hire foreigners without an upper limit of foreigners in their personnel, as long as those foreigners fall under what Panamanian Labor legislation terms Employee of Trust, which is basically an executive.
3. **Tax benefits.** As the operations of these companies consist in the provision of services to their affiliates abroad, the corresponding income is not taxable in Panama. Remember here that Panama has a territorial taxation system of income, thus, any income generated outside Panama, is automatically exempt from income tax.
4. **Work permits facilitated.** The paperwork needed for the obtainment of the visas and work permits of the foreign employees of the multinational company, will be significantly reduced.

5. **Special license.** Multinational companies wishing to take advantage of this law need to apply for a special license before the Ministry of Commerce and Industries.

Most of the advantages of Law 41 are not really new in Panama. What is an innovation is the fact that they have now been consolidated in a straightforward and easy to understand piece of legislation.

Law 41, in conjunction to the other known advantages of Panama, like its geographic position in the center of the Americas, its excellent communications, and its modern financial system integrated to the world, among others, are expected to attract multinational companies to establish their regional corporate headquarters in this beautiful country.

What will Panama gain from this?

Are you kidding me? First, this obviously translates into more investment and more employment (for they will need to hire locals too, as any foreign company does, not to mention the indirect employment effect), even more tourism.

But more importantly in the longer term, this will also generate the import of knowledge. If a headquartering cluster is created, then it means that much world-class managerial and entrepreneurial know-how is coming to Panama. The spillover effect will be enormous.

If Panama succeeds in this goal of getting to be chosen by multinational corporations as their base of operations for the Latin American region, this can only mean good news for Panamanians.