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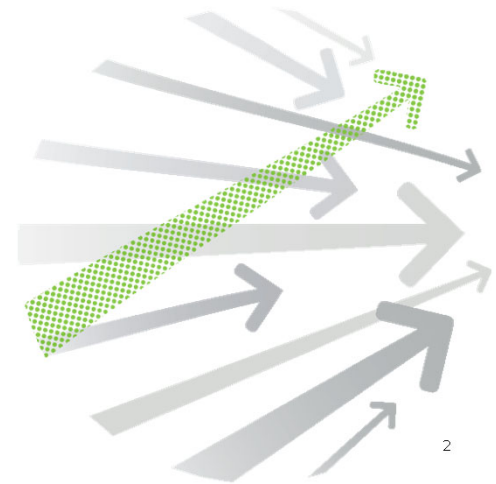
## **Colon Logistics Park (CLP)**

**Logistics Hub or Distribution Centers in the Republic of Panama**

June 2021

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# Background

## Background

- With the issuance of Executive Decree No. 354 of 2020, the Panamanian Government expands the tax regulatory framework for the international trade sector in order to adapt the customs regulations to the new schemes demanded by the sector and thus enhance the development, competitiveness and dynamism of ports, airports and the logistics sector in general. That is why it is necessary to analyze this new regulatory instrument to verify and warn of the scope of the new tax treatment.
- It is important to note that the new regulation grants significant tax concessions to the logistics sector which confirms the trust that the country places in this important sector of its economy, which is attractive to foreign investors and a generator of a rich source of Jobs.
- With this, there is a new business alternative within ports, airports and other sites related to international trade in goods, as logistics parks are now integrated, allowing goods that arrive in the country with final destination abroad to be stored, consolidate/deconsolidate and subject to minimal processing processes prior to dispatch, without this generating some kind of tax burden for the owner of the goods.
- Colon Logistics Park (hereinafter "CLP") is the newest logistics park project in Panama grounded in Cabinet Decree No.10 of 2021. Located within Colon's Container Terminal, the project seeks to consolidate itself as the most attractive logistics offering in the country. To this end, the objective is that with the benefits of the Cabinet Decree No. 10, two types of customers can be attracted to the Park: (i) 3PLS companies, which in turn will provide their customers who own the goods (companies that invoice the sale of goods from abroad) with a wide range of logistics services for the purpose of the goods to arrive at the Parks for storage, manage, consolidation/deconsolidate, manipulate, transform and subsequently forwarded outwards, or (ii) To the customers themselves who own the cargo, so that they are established in the parks and carry out the operation indicated in the previous point (i.e. without the intervention of the company 3PL).
- In accordance with the above, the changes introduced to our tax and customs regulations will be analyzed, specifying the different assumptions and models of international trade that could be executed through the different special and customs tax regimes with special emphasis on the new logistics park called Colon Logistics Park, so that this information can serve as a guide to potential foreign clients/investors.

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# Logistic Glossary

# Logistic Glossary

- 1. CLP:** Colon Logistics Park
- 2. AEPP:** Panama Pacific Special Economic Area
- 3. ZLC:** Colon Free Zone
- 4. EMMA:** Multinational company for the provision of manufacturing-related services. Law 158 of 2020.
- 5. CAUCA-RECAUCA:** Central American Customs Code and Central American Customs Code Regulations. Adopted by Law No. 26 of 2013 in our legal system.
- 6. ANA:** National Customs Authority
- 7. Logistic Services:** Those services that aim to facilitate the goods or products reaching various customers, without mediating their purchase or sale by who provides these services. These services include: Transportation, storage, handling, packing, re-packing, unpacking, packaging, assembly, regrouping, consolidation and labeling of goods and products, as well as the major information related to them. It also includes advice on logistics and foreign trade issues.
- 8. Merchandise in transit:** Goods arriving in the country to continue abroad, with boarding documents indicating that they are consigned to persons not resident in the Republic and goods arriving in the country consigned to persons resident therein, with boarding documents indicating that they must be sent abroad immediately after arriving (D.E. 354 of 2020).
- 9. Customs Primary Area:** It comprises aquatic or terrestrial spaces, where all kinds of activities related to international trade are carried out, including boarding operations, disembarkation, reception, custody, mobilization of goods, persons, means of transport and cash, both domestic and foreign, industrial and commercial processing processes, developed under strict control and customs control. (Decree Law No. 1. 2008)
- 10. Customs Secondary Area:** Places of access or exit from primary areas, communication routes and the rest of the customs territory, other than primary areas, where possession and movement of goods may be subject to special control measures. (Decree Law No. 1 of 2008)
- 11. Importation:** Entry of goods into the customs territory through the places, routes, and schedules enabled by the Customs Service. (Definition of RECAUCA – Law No. 26 of 2013)
- 12. Storage:** For customs purposes is the equivalent to deposit and means when the goods are stored for a determined period of time in a place under the Customs control with suspension of the customs duties (RECAUCA definition – Law No. 26 of 2013)
- 13. Classification:** An act by which the goods are assigned the corresponding fractions of a customs tariff. (Decree Law No. 1 of 2008)
- 14. Customs regime:** These are the different destinations to which goods under customs control may be subject. These include import, export, transit, transshipment, Deposit, Free Zones (Definition of CAUCA article 89)

# Logistic Glossary

- 15. Consolidation:** Activity that allows to group different shipments (loads) of one or more consignees, to be transported under a single mother transport document. (RECAUCA article 3 – Law No. 26 of 2013)
- 16. Deconsolidation:** Activity that allows to ungroup consolidated shipments in the same transport document or other equivalent and that are intended for different consignees, presenting each individual shipment with their respective child transport document. (RECAUCA article 3 – Law No. 26 of 2013)
- 17. Labeling:** Any printed or graphic material on the label, which accompanies or is displayed near the product, including the material intended to encourage its sale or placement. (Decree 121 of 2015 on the processing and marketing of organic products)
- 18. Packaging:** Wrapping, packing, pallet and other protective devices of the merchandise, which prevent possible damage during handling and transport. (Decree Law No1. 2008)
- 19. Assembly:** Manufacture of finished products, through the process of adapting inputs and semi-finished parts. (Law No. 158 of 2020 article 14)
- 20. Repackage:** Any product that in places other than the manufacturing site is removed from its original packaging or packaging to be repackaged or repackaged in different presentations. (Res. 03, 2017 of the MICI)
- 21. DAL:** Acronym for Customs Logistic Deposits, created by Cabinet Decree No. 10 of 2021, which are companies authorized by the National Customs Authority to operate under the Customs Deposit regime at ports and airports according to the requirements established in El CAUCA and RECAUCA.

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# Tax Glossary



# Tax Glossary

- 1. Income Tax (ISR):** A tax levied on income from any source within the territory of the Republic of Panama regardless of where it is collected. The largest is paid between: (A) Traditional method: 25% (on net taxable income); (b) Calculation of numeral 2 (formerly CAIR): 25% on 4.67% of taxable income.
- 2. CAIR:** Alternate Income Tax Calculation. Applies to taxpayers who have taxable income equal to or greater than USD.
- 3. Taxable Income:** Income produced within the territory of the Republic of Panama.
- 4. Taxable Net Income:** Difference or balance resulting from deducting foreign source income, exempted and/or non-taxable income, as well as deductible costs, and expenses from your gross income or general income.
- 5. Dividend Tax:** A tax that taxes the distribution of profits from taxable income at 10%, and exempt income and foreign income at 5%. In special schemes a 5% single rate applies on any type of income.
- 6. Complementary Tax:** Advance of dividend tax that taxes retained earnings or distributions less than 40% (taxable income) and 20% (exempt income, foreign and export source). For local income it represents 4% of retained earnings, and for foreign and/or exempt income it represents 2% of retained earnings. It is paid in conjunction with the ISR Statement.
- 7. DGI:** Panamanian Tax Administration .
- 8. Notice of Operations:** Document that enables companies to operate commercially within the national territory.
- 9. ITBMS:** A tax levied at 7% on the transfer of tangible personal property and the provision of services within the national territory.
- 10. Commercial Notice Tax:** A tax that taxes the company's net capital or asset with 2%. Minimum amount: USD 100.00; maximum amount: \$60,000.00. It is paid in conjunction with the ISR Declaration. In special tax regimes this tax is taxed at 0.5% the capital or net asset of the company with a minimum amount of USD.100.00 and a maximum amount of USD. 50,000.00
- 11. Foreign Remittance Tax:** Payments or accrual made to a natural or legal person domiciled abroad, in the form of royalties, services or interests. Subject to 12.5% tax for legal entities or fees for natural persons ranging from 0% to 25%. Our Tax Code sets out in Article 694-e two conditions that retention agents must take into account for the purpose of practicing retention: (i) that the expense is necessary for the production or conservation of Panamanian sources, and (ii) that the expenditure is considered deductible. The foregoing does not apply to payments made by lost taxpayers which they must always withhold.
- 12. Tax Equipment:** Equipment authorized by the DGI that electronically processes, records, issues and stores tax receipts and non-tax documents saved as a result of the sales of goods and the provision of services (Decree 114 of 2020).
- 13. Transfer Pricing Regime:** In accordance with Article 762-D of the Tax Code, it is established that the transfer pricing regime is intended to regulate transactions between related parties for tax purposes, so that the considerations between them are similar to those between independent parties.
- 14. Permanent Establishment:** Place or fixed business base or business center where a company fully or partially develops its activity (art. 762-M of the Tax Code)
- 15. Legal Stability:** Regime granted to investors who make investments in the country in sectors such as tourism, logistics, construction, mining, among others. It provides legal stability, national taxes (except indirect taxes), municipal taxes, customs and labour aspects for a term of 10 years. (Law No. 54 of 1998).
- 16. D.E. 354 of 2020:** Amends Article 10(a) as well as Article 13(a) of Executive Decree No. 170 of 1993.

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# Activities allowed at a Distribution Center or Hub in the Republic of Panama

A) General Regime: Introduction of goods for re-export without any process (with final recipient)

One of the activities that can be developed by the Distribution Centers or logistic “Hubs” is to receive goods from abroad and then re-export them without any process or change. The previous activity qualify to benefit from the new tax framework developed by Decree No. 354 of 2020 for logistics services, as it meets the main budget, which is that goods be introduced for purposes of re-export either abroad or to any free zone, special economic area, free zone, primary zone of domestic airport, or primary zone or customs port enclosure of port or terminal granted under concession (“international trade areas”)

**GENERAL INFORMATION:**

Under this scheme, the goods are sent by the entity abroad to the logistics operator in the DAL, who receives it for later re-export to the final customer (final consignee) shortly after the goods enter the Park.

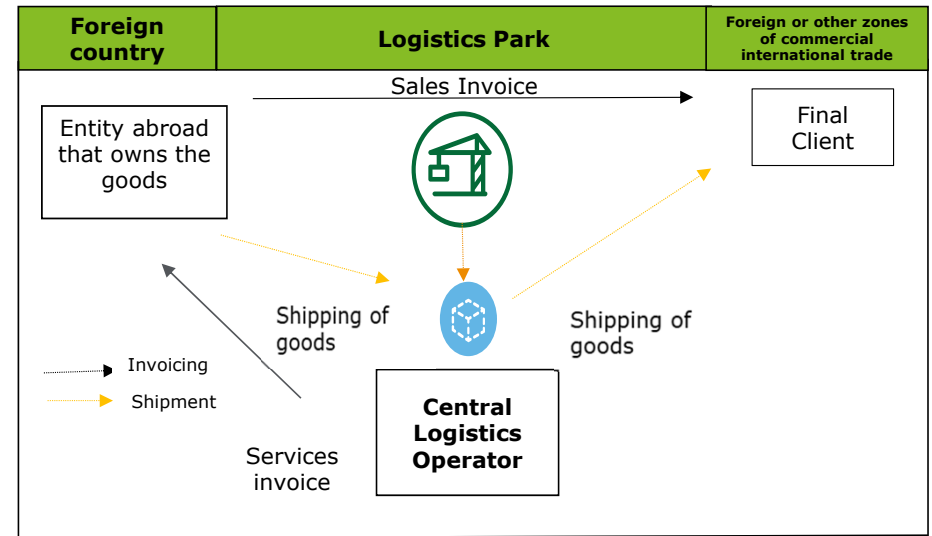
Under this scheme, the goods will not undergo any process or modification by the logistics operator.

**LEGAL ASPECTS:**

- For legal purposes, the sale of the goods will be considered as an outside sale. In other words, it will be understood in the same way as if the goods had not touched Panama. The foreign entity that owns the goods must not register in Panama to carry out these sales.
- On the assumption that foreign entities decide to carry out the activity of logistics operator within the DAL, then they must register some type of company (corporation, limited liability, etc.) or register a branch of foreign company.
- There will not be a title transfer of the goods to the logistics operator, it will only be necessary to consign them in the bill of lading . The title transfer will take place at the time the entity that owns the goods transfers the goods to the future customer.

**TAX ASPECTS – FOREIGN ENTITY OWNER OF THE MERCHANDISE:**

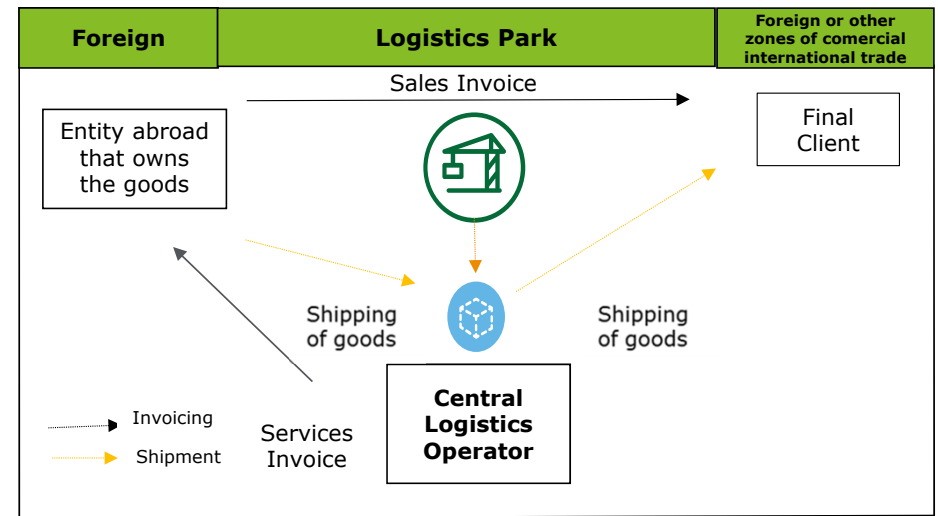
- According to D.E. 354, the invoicing of the goods under this scheme will be considered as a foreign source income for the foreign entity, not subject to income tax in Panama since it is considered as in transit (see glossary definition). The Tax Code establishes in its article 694-paragraph 2 that constitutes foreign income to invoice from an office in Panama the sale of goods or products that move exclusively abroad. While it is true that the Tax Code has not yet been adequate to include the assumptions of goods in transit, it is understood that this assumption also fits within the definition of foreign income as set out in the aforementioned Decree.



- Similarly, the same regulation states that such foreign entity is not considered to have a permanent establishment (“EP”) due to the permanence of the goods in its ownership within one of the areas of international trade mentioned above.
- In regards to ITBMS, article 1057-V of the Tax Code states that this tax only levies the transfer of movable tangible property and services performed within Panamanian fiscal territory. This sale when not generated in Panamanian tax territory is not subject to this tax.
- Assuming that the goods consigned to the logistics operators have as final destination a customer within the Republic of Panama would generate fiscal implications for the owner of the goods provided that it would no longer be considered as goods in transit. First, the income from such sale would be considered as a local source, subject to income tax in accordance with article 694 of the Tax Code. Likewise, the sale would no longer be considered as an external sale but as a nationalization of goods, subject to ITBMS by the Panamanian importer (Article 1057-V of the Tax Code). In addition, according to article 762-M of the Tax Code, the holding of facilities, warehouses, stores or other establishment in the country constitutes an EP. Although in this case the foreign entity will not have any of these physical spaces in its own way, its merchandise would be occupying a space in the facilities of the logistic operator. Therefore, the goods to be destined for the Panamanian market may constitute a risk of EP since they are temporarily stored in the Logistic Park for sale to Panamanian territory.
- In case of the formation of an EP, the entity shall be subject to all other national taxes, i.e., dividend tax, trading notice tax, etc. (see glossary for rates and tax base)

**TAX ASPECTS – LOGISTIC OPERATOR:**

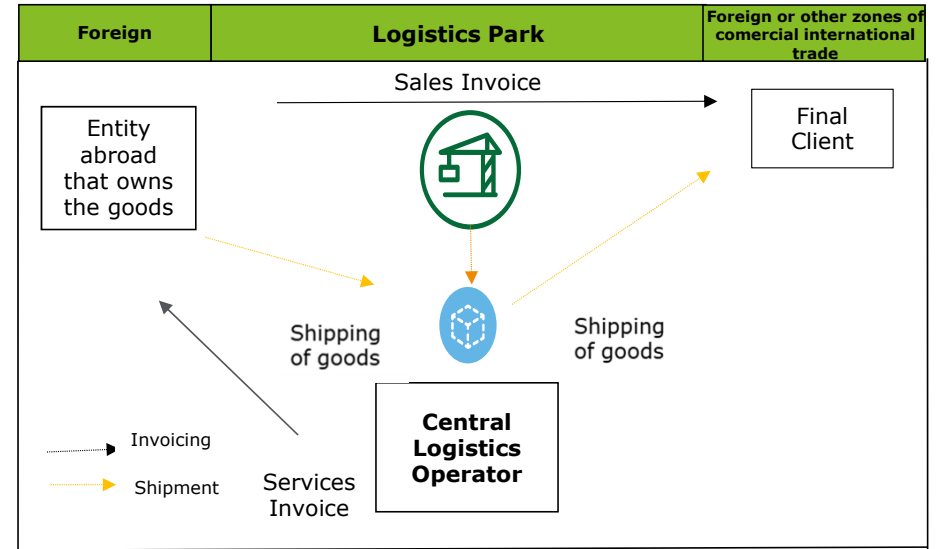
- For the purposes of the logistics operator, D.E. 354 indicates that the revenue from logistics operations of goods or goods arriving to a logistics operator in one of the areas of international trade shall be considered as exempt income provided that the goods are subsequently sent abroad or to another area of international trade



- In accordance with Article 10(d) of Executive Decree No. 84 of 2005, logistics services are exempt from ITBMS.
- The logistics operators would be subject to other national taxes. such as dividend and complementary tax, foreign remittance tax and notice of transactions according to the rates set out in the tax glossary (slide 8). Also, the commercial relationship between the logistics operator and its related entities abroad would be subject to the transfer pricing regime.
- The logistics operator must document its operations through fiscal equipment in accordance with Law No. 72 of 2011. The document issued by fiscal equipment is called a fiscal invoice, which must contain at least the following information: document name, consecutive numbering, equipment registration number, issuer information including the Tax ID, issue date, transaction description, breakdown of applicable taxes and withholdings, individual value of the goods or service transferred and the fiscal logotype.
- However, if the logistics operator is registered as a Colon Free Trade Zone or Panama Pacific Regime company, it may document its operations through the Commercial Movement Declaration system, prior to authorization by the competent authority of the Area.
- This treatment applies both to the case in which the logistics operator is a third party or is the same owner of the goods, when the customers decide to establish a Panamanian company to carry out this activity.

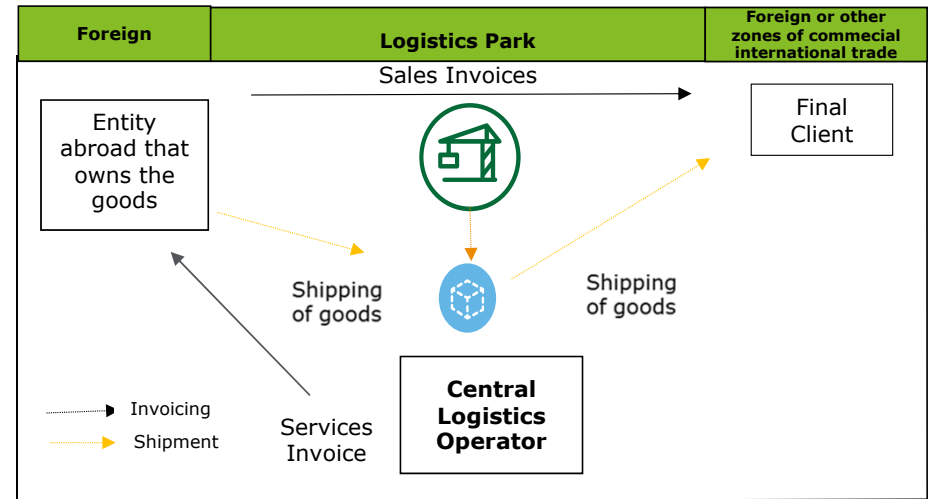
**CUSTOM ASPECTS:**

- The introduction of the goods to the Logistic Park shall be exempt from the payment of all customs duties, since the Park is located within the Primary Zone of the Customs Area of the Terminal of Containers of Colon ("Colon Container Terminal").
- In Panama there are no customs duties or taxes on exports, therefore, as soon as the goods leave the Logistics Park to the final customer, there will be no applicable tax.



**CUSTOMS DOCUMENTATION:**

- According to Article 317 of the RECAUCA, all goods for purposes of customs procedures must be sustained by a declaration of goods. The goods will enter the Logistics Park in a customs deposit regime.
- Therefore, at the time the foreign entity ships the goods to the Logistic Park consigned to the logistic operator, this formality must be complied with indistinctly that it is being imported into a suspensive regime of customs duties, as is the case, since the Logistics Park is located in a Primary Customs Zone.
- For the purposes of the transfer of goods from a port or airport to the Logistics Park (DAL), the format of Decree 6 (Transfer of Non-Nationalized Goods) is used, which is considered as a customs declaration under the terms of Art. 317 of the RECAUCA.
- The format of Decree 6 is found in the Customs Management System (SIGA), which is administered by the National Customs Authority. The format of Decree 6 is presented to Customs via SIGA System – only electronically – and the responsibility for its presentation rests with the logistic operator responsible for the goods in Panama.
- As stated in D.E. 354, in these cases the bill of lading must indicate that the goods are consigned to the logistics operator within the Park.
- In this case, the commercial invoice will be that issued by the foreign entity owner of the goods to the end customer.
- With respect to the rules of origin, in the case of Central America goods, article 17 of the Central American Origin Regulation provides that a merchandise shall not lose origin when it passes through the territory of countries not party, as long as during transport and storage it is not transformed or subjected to operations other than packing, re-packing, loading, unloading or handling to ensure its conservation.
- In the case of goods produced in countries with which Panama maintains Free Trade or Trade Promotion Agreements or Treaties, the origin of the goods is governed by each of these agreements or treaties.
- The logistics operator when sending the products to end customers outside Panama must indicate that the goods have complied with all the rules set forth in the Law and in the International Treaties concerning origin.



B) General Regime: Introduction of goods for re-export without any process (without final recipient)



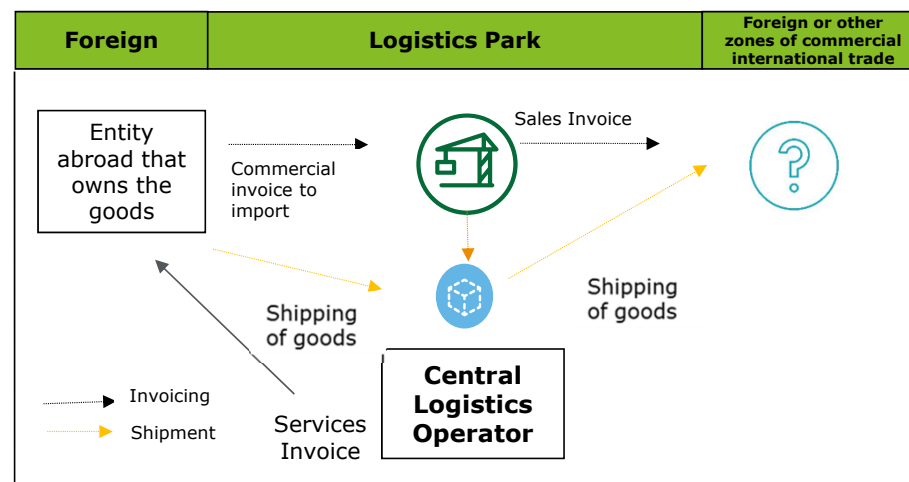
Another activity that can be carried out by the Distribution Centers or Logistics Hubs is to receive merchandise from abroad and then re-export them without any process, we mean the case of goods that do not yet have a defined final recipient. The previous activity qualifies to benefit from the new tax framework developed by Decree No. 354 of 2020 for logistic services, since the goods will leave the Park after a time of being stored, to other country or other free zone, free, special or customs enclosure to the future client.

**GENERALITIES:**

- Under this scheme, the goods are sent by the entity abroad to the logistics operator in the Logistics Park, which receives it. The goods will remain under storage for a while in the Logistics Park and will then be re-export once it is sold to a customer abroad or area
- Under this scheme, the goods will not suffer any kind of process or modification by the logistics operator.

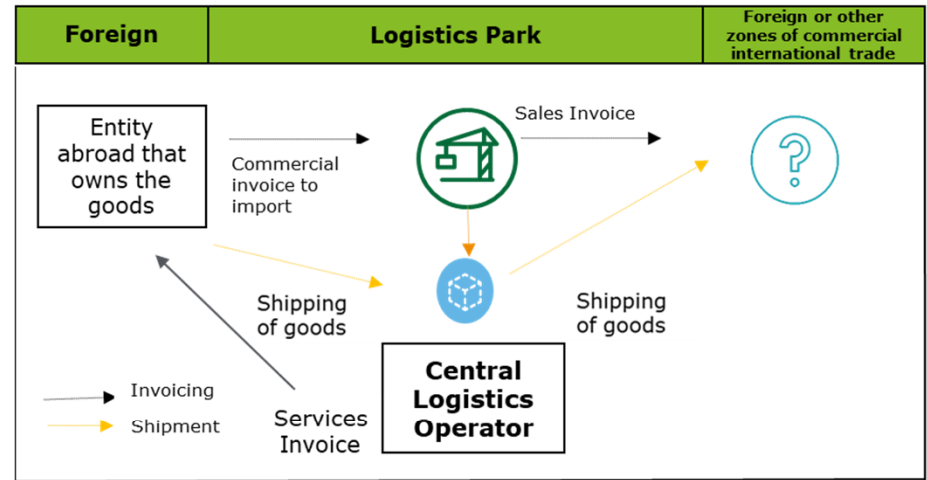
**LEGAL ASPECTS:**

- For legal purposes, the sale of the goods under this scheme will be considered as an external sale. That is, it will be understood in the same way as if the goods had not touched Panama. The foreign entity that owns the goods must not register in Panama to carry out these sales.
- On the assumption that foreign entities decide to carry out the activity of logistics operator within the Logistics Park then they must register some type of company (corporation, limited liability, etc.) or register a branch of foreign company.
- There will not be a title transfer of the goods to the logistics operator, it will only be necessary to consign them in the bill of lading . The title transfer will take place at the time the entity that owns the goods transfers the goods to the future customer.



**TAX ASPECTS – FOREIGN ENTITY THAT OWNS THE GOODS**

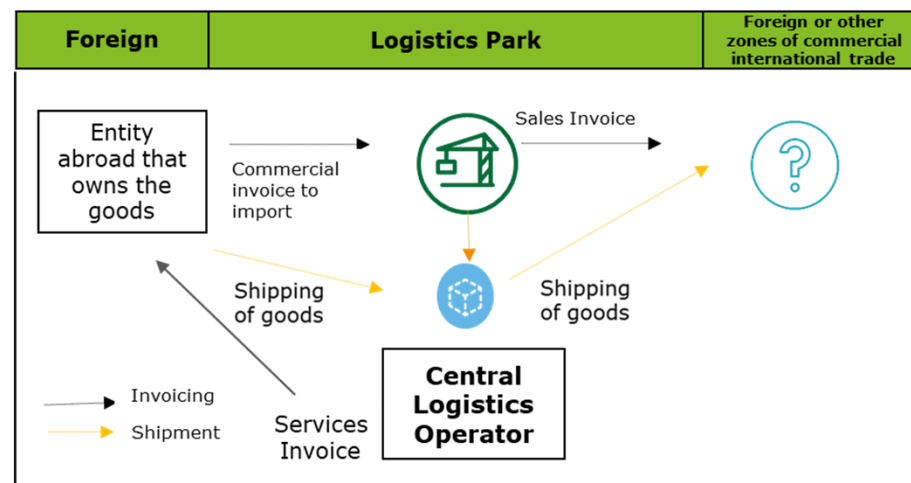
- According to D.E. 354, invoicing of goods under this scheme is considered to be a foreign source income for the foreign entity not subject to income tax in Panama as it is considered a goods in transit (see glossary definition). The Tax Code provides in Article 694-Paragraph 2, that it is foreign income to invoice from an office in Panama the sale of goods or products that move exclusively abroad. While it is true that the Tax Code has not yet been adequate to include cases in transit, it is understood that this assumption also qualified within the definition of foreign income as indicated in the Decree.
- Similarly, the same regulation states that the foreign entity is not considered to have a permanent establishment ("EP") for the retention of the goods owned within one of the areas of international trade mentioned above.
- With regard to ITBMS, article 1057-V of the Tax Code states that this tax is only levied on the transfer of movable tangible property and services carried out within Panamanian tax territory. This sale because it is not generated in Panamanian tax territory is not subject to this tax.
- On the assumption that the goods consigned to the logistics operator have as its final destination a customer within the Republic of Panama tax implications will be generated for the owner of the goods since it would no longer be considered as goods in transit. First, income from that sale would be considered as local in source, subject to income tax in accordance with Article 694 of the Tax Code. Likewise, the sale would no longer be considered as an external sale but as nationalization of goods subject to the ITBMS (Article 1057-V of the Tax Code). Similarly, according to Article 762-M of the Tax Code, the holding of facilities, warehouses, shops or other establishments in the country constitutes an EP. Although in this case the foreign entity will not have any of these physical spaces on its own, its merchandise would be occupying a space in the facilities of the logistics operator. Therefore, the goods to be destined for the Panamanian market may constitute a risk of PE being temporarily stored in the Logistics Park for export to Panamanian territory.



In the event of an EP being constituted, the entity shall be subject to all other national taxes, i.e. dividend tax, transaction notice tax, etc. (see glossary for fees and taxable amount).

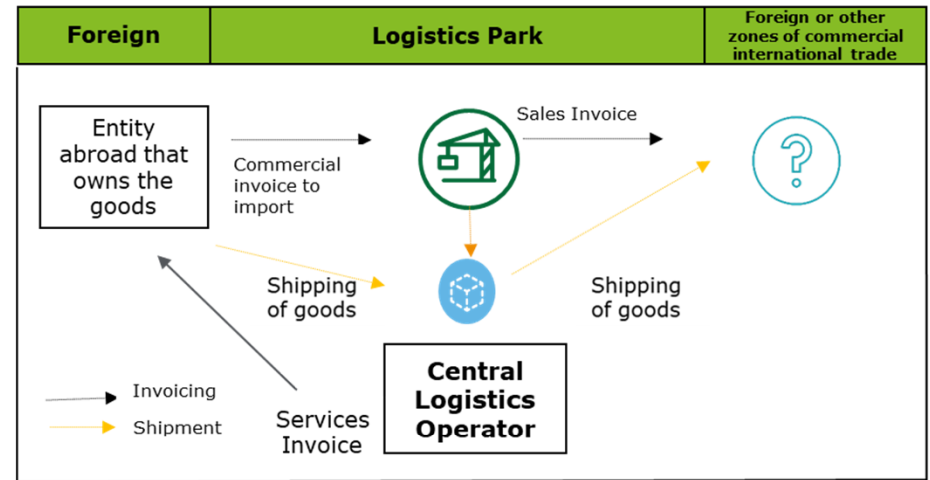
**TAX ASPECTS – LOGISTICS OPERATOR:**

- For the purposes of the logistics operator, D.E. 354 states that revenue from logistics operations of goods or products that arrive consigned to a logistics operator in one of the areas of international trade shall be considered as exempted income provided that the goods are subsequently forwarded abroad or to another area of international trade.
- In accordance with Article 10(d) of Executive Decree No. 84 of 2005, logistics services are exempt from ITBMS.
- Logistics operators would be subject to other national taxes such as dividend and supplementary tax, foreign remittance tax and notice of transactions according to the fees set out in the tax glossary (slide 8). Similarly, the commercial relationship between the logistics operator and its related entities abroad would be subject to the transfer price regime.
- The logistics operator must document its operations through fiscal equipment in accordance with Law No. 72 of 2011. The document issued by fiscal equipment is called a fiscal invoice, which must contain at least the following information: document name, consecutive numbering, equipment registration number, issuer information including the Tax ID, issue date, transaction description, breakdown of applicable taxes and withholdings, individual value of the goods or service transferred and the fiscal logotype.
- However, if the logistics operator is registered as a Colon Free Trade Zone or Panama Pacific Regime company, it may document its operations through the Commercial Movement Declaration system, prior to authorization by the competent authority of the Area.
- This treatment applies both to the case in which the logistics operator is a third party or is the same owner of the goods, when the customers decide to establish a Panamanian company to carry out this activity.



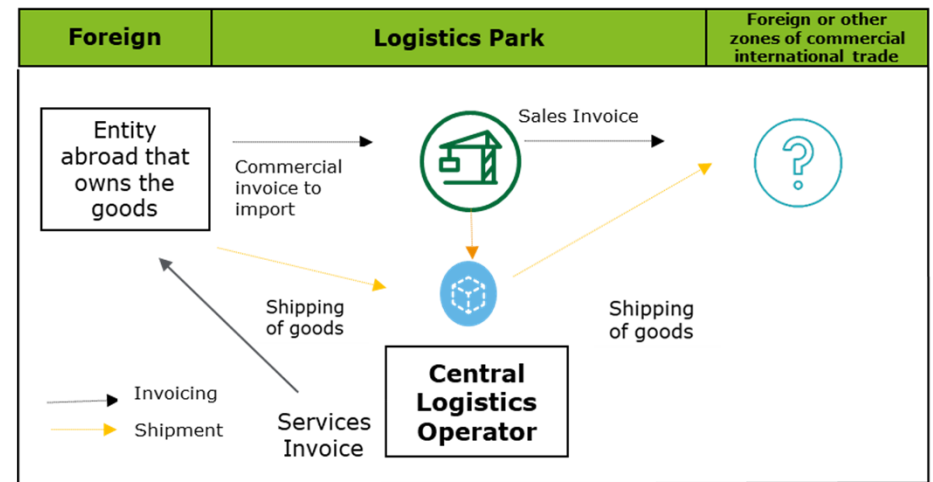
**CUSTOMS ASPECTS:**

- The introduction of the goods to the Logistics Park shall not be subject to any kind of tax or customs duties, since the Park is within a Primary Customs Area, under the customs deposit regime, which is a suspensive regime of duties.
- On this assumption, the goods may remain stored within the DAL, for the term of one (1) year, extendable for one (1) additional year, after this term has expired, the goods must be reissued to a foreign country, or they would become abandoned under the authority of the Customs.
- Since the goods are in a DAL, under the Deposit Regime, where taxes and customs duties are suspended, it is considered that the goods have not entered Panamanian customs territory, therefore, as soon as the goods leave the logistics Park to the end customer, there shall be no applicable tax or duty.
- The re-shipment of goods deposited in a DAL can take place through customs procedures for re-export, transit, temporary import for inward processing, temporary export for inward processing and any other that develops later by customs.
- In all cases it is up to the consignee of the goods who has the power in application of the principle of self-determination, to decide the regime to which they wish to submit them, as stated in Art. 91 of Decree Law 1 of 13-2-2008.



**CUSTOMS DOCUMENTATION:**

- According to Article 317 of the RECAUCA, all goods to be destined for a customs regime must be sustain by a declaration of goods, which for this case is the form of Decree 6 already indicated. The goods will enter the Logistics Park under the customs deposit regime, since the Park is located within a Primary Customs Zone. Therefore, at the time the foreign entity ships the merchandise to the Logistics Park consigned to the logistics operator, this formality must be complied with.
- In both cases, all customs procedures will be carried out by the logistics operator. The declaration of goods (Decree 6) must be accompanied by the commercial invoice, the bill of lading or any other transport document and any license or permit applicable to the goods.
- As noted in D.E. 354, in these cases the bill of lading must indicate that the goods are consigned to the logistics operator within the Park.
- In regards to the commercial invoice, it is important to note that when the goods do not yet have a final recipient (customer), an invoice must be made for customs purposes only, so that it can contribute and sustain the value of the merchandise at the time of its entry into the Logistics Park. This invoice must be in the name of the entity that owns the goods itself, to avoid any understanding of transfer of title to third parties. Subsequently, once the sale is made to the customer, the final commercial invoice may be issued, on which the reissue of the goods will be supported. Our current regulations and the various free trade agreements and treaties signed by the Republic of Panama allow this invoice to be issued from abroad.
- In respect to the rules of origin, in the case of goods with Central America origin, article 17 of the Central American Regulation on the origin of goods provides that a merchandise shall not lose origin when it passes through the territory of third party countries, as long as during transport and storage it is not transformed or subjected to operations other than packing, packing, re-packing, loading, unloading or handling to ensure conservation.
- In the case of goods produced in countries with which Panama maintains Free Trade or Trade Promotion Agreements or Treaties, the origin of the goods is governed by each of these agreements or treaties.
- The logistics operator when sending the products to end customers outside Panama must indicate that the goods have complied with all the rules set forth in the Law and in the International Treaties concerning origin.



C) General Regime: Introduction of goods for re-export after any change process

The Logistics Distribution Centers or "Hubs" may receive goods from abroad and subsequently reissue them without prejudice to the fact that such goods or products have been the subject of operations of introduction, storage, inventory management, classification, consolidation, decomposition, transfer, distribution, packaging, re-packaging, labelling, re-labelling, packaging, re-packaging, fractionation, cooling, separation, transport, adaptation, repair, restoration or tuning. The previous activity qualifies to benefit from the new tax framework developed by Decree No. 354 of 2020 for logistics services, as it meets the main target, which is that the goods are introduced for re-export purposes either other countries or to some free zone, special economic area, free zone, primary area of national airport, or primary area or customs port enclosure of port or terminal granted in concession ("areas of international trade")

**GENERALITIES:**

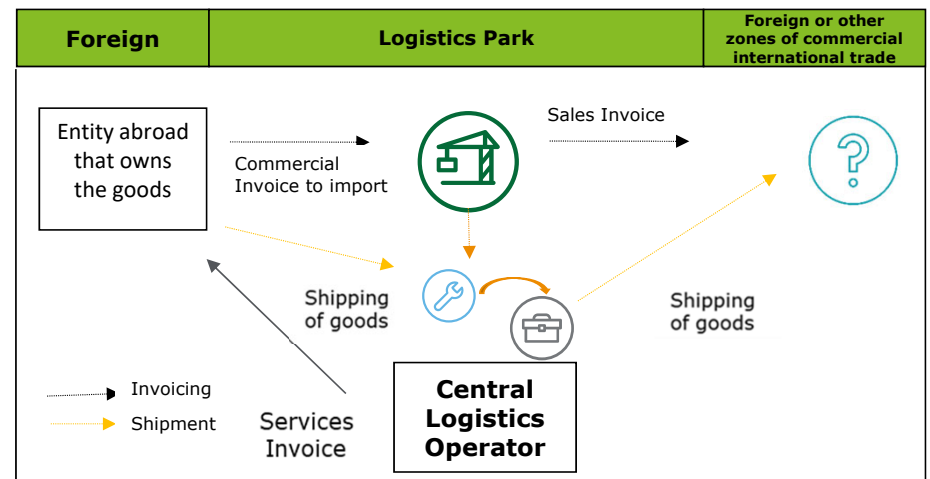
Under this scheme, the goods are sent by the entity abroad to the logistics operator in the Logistics Park, which receives it and subsequently reissue it to customers after having undergone any of the above procedures.

**LEGAL ASPECTS:**

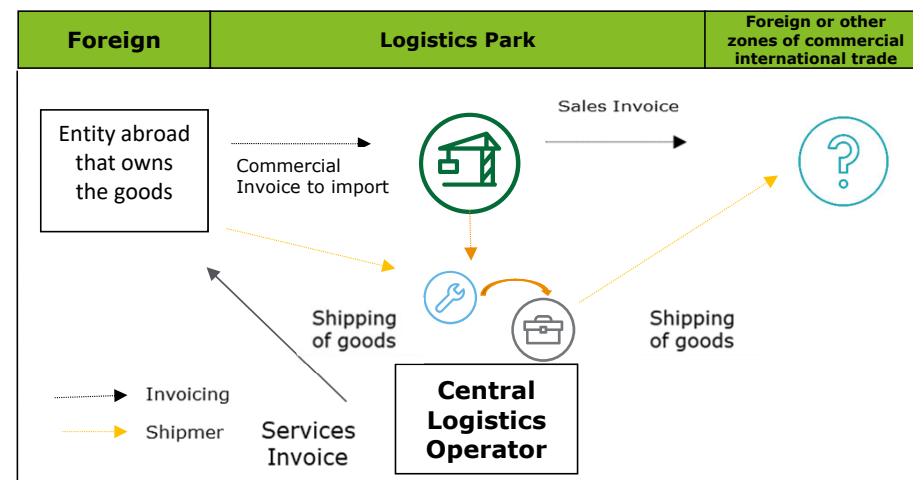
- For legal purposes, the sale of the goods under this scheme will be considered as an external sale. That is, it will be understood equally as if the goods had not touched Panama. The foreign entity owning the goods must not register in Panama to carry out these sales.
- In case the foreign entities decide to carry out the activity of logistic operator within the Logistics Park then they must register some type of company (corporation, limited liability, etc.) or register a branch of foreign company.
- There will not be a title transfer of the goods to the logistics operator, it will only be necessary to consign them in the bill of lading . The title transfer will take place at the time the entity that owns the goods transfers the goods to the future customer.

**TAX ASPECTS – FOREIGN ENTITY THAT OWNS THE GOODS:**

According to D.E. 354 the invoicing of the goods under this scheme will be a foreign source income for the foreign entity not subject to income tax in Panama since it is considered as a goods in transit (see definition in glossary).



- The Tax Code provides in Article 694-Paragraph 2, that it is foreign income to invoice from an office in Panama the sale of goods or products that move exclusively abroad. While it is true that the Tax Code has not yet been adequate to include cases in transit, it is understood that this assumption also qualified within the definition of foreign income as indicated in the Decree.
- Similarly, the same regulation states that the foreign entity is not considered to have a permanent establishment ("EP") for the retention of the goods owned within one of the areas of international trade mentioned above.
- With regard to ITBMS, article 1057-V of the Tax Code states that this tax is only levied on the transfer of movable tangible property and services carried out within Panamanian tax territory. This sale because it is not generated in Panamanian tax territory is not subject to this tax.
- On the assumption that the goods consigned to the logistics operator have as its final destination a customer within the Republic of Panama tax implications will be generated for the owner of the goods since it would no longer be considered as goods in transit. First, income from that sale would be considered as local in source, subject to income tax in accordance with Article 694 of the Tax Code. Likewise, the sale would no longer be considered as an external sale but as nationalization of goods subject to the ITBMS (Article 1057-V of the Tax Code). Similarly, according to Article 762-M of the Tax Code, the holding of facilities, warehouses, shops or other establishments in the country constitutes an EP. Although in this case the foreign entity will not have any of these physical spaces on its own, its merchandise would be occupying a space in the facilities of the logistics operator. Therefore, the goods to be destined for the Panamanian market may constitute a risk of PE being temporarily stored in the Logistics Park for export to Panamanian territory.
- In case of the formation of an EP, the entity shall be subject to all other national taxes, i.e., dividend tax, trading notice tax, etc. (see glossary for rates and tax base).



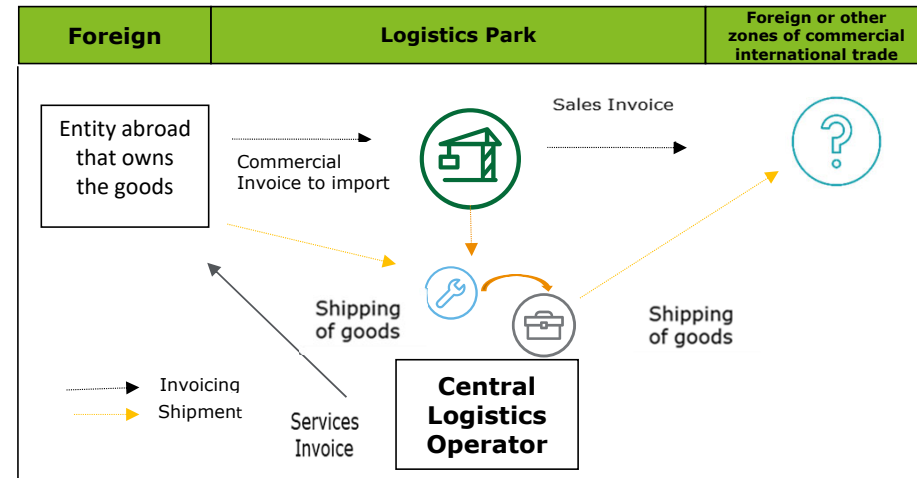


**TAX ASPECTS – LOGISTIC OPERATOR:**

- For the purposes of the logistics operator, D.E. 354 states that revenue from logistics operations of goods or products that arrive consigned to a logistics operator in one of the areas of international trade shall be considered as exempted income provided that the goods are subsequently forwarded abroad or to another area of international trade.
- In accordance with Article 10(d) of Executive Decree No. 84 of 2005, logistics services are exempt from ITBMS.
- Logistics operators would be subject to other national taxes such as dividend and supplementary tax, foreign remittance tax and notice of transactions according to the fees set out in the tax glossary (slide 8). Similarly, the commercial relationship between the logistics operator and its related entities abroad would be subject to the transfer price regime.
- The logistics operator must document its operations through fiscal equipment in accordance with Law No. 72 of 2011. The document issued by fiscal equipment is called a fiscal invoice, which must contain at least the following information: document name, consecutive numbering, equipment registration number, issuer information including the Tax ID, issue date, transaction description, breakdown of applicable taxes and withholdings, individual value of the goods or service transferred and the fiscal logotype.
- However, if the logistics operator is registered as a Colon Free Trade Zone or Panama Pacific Regime company, it may document its operations through the Commercial Movement Declaration system, prior to authorization by the competent authority of the Area.
- This treatment applies both to the case in which the logistics operator is a third party or is the same owner of the goods, when the customers decide to establish a Panamanian company to carry out this activity.

**CUSTOM ASPECTS:**

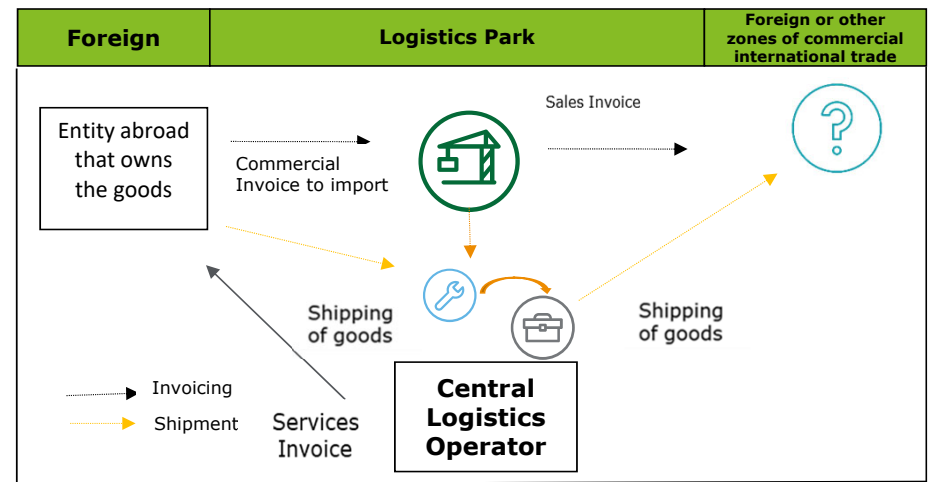
- The introduction of the goods to the Logistics Park will not be affected to any import tax, since the Park is located within the customs enclosure of the Colón Container Terminal ("Colon Container Terminal") which is a primary customs area where the entry of goods enjoys the suspension of customs duties.



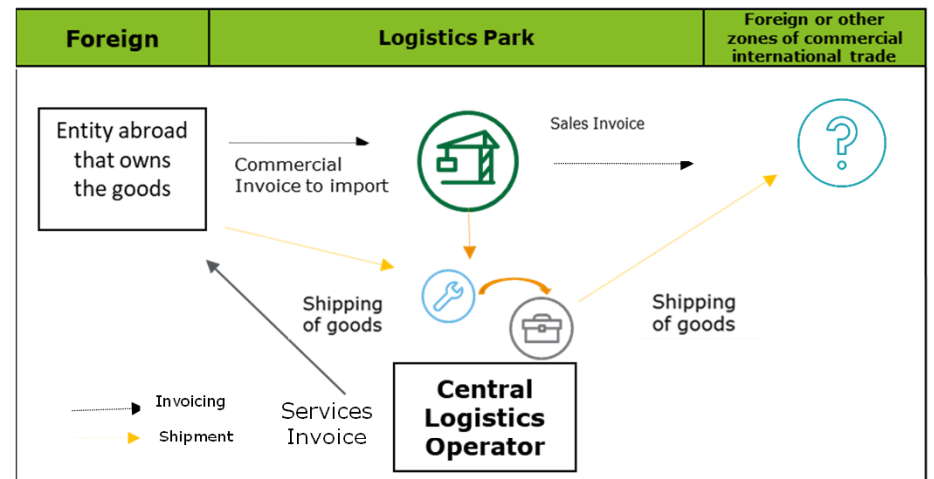
- On this assumption, the goods may remain stored within the DAL, for the term of one (1) year, extendable for one (1) additional year, after this term has expired, the goods must be reissued to a foreign country, or they would become abandoned under the authority of the Customs.
- Since the goods are in a DAL, under the Deposit Regime, where taxes and customs duties are suspended, it is considered that the goods have not entered Panamanian customs territory, therefore, as soon as the goods leave the logistics Park to the end customer, there shall be no applicable tax or duty.
- The re-shipment of goods deposited in a DAL can take place through customs procedures for re-export, transit, temporary import for inward processing, temporary export for inward processing and any other that develops later by customs.
- In all cases it is up to the consignee of the goods who has the power in application of the principle of self-determination, to decide the regime to which they wish to submit them, as stated in Art. 91 of Decree Law 1 of 13-2-2008.

**CUSTOMS DOCUMENTATION:**

- According to Article 317 of the RECAUCA, all goods to be destined for a customs regime must be sustain by a declaration of goods, which for this case is the form of Decree 6 already indicated. The goods will enter the Logistics Park under the customs deposit regime, since the Park is located within a Primary Customs Zone. Therefore, at the time the foreign entity ships the merchandise to the Logistics Park consigned to the logistics operator, this formality must be complied with.
- In both cases, all customs procedures will be carried out by the logistics operator. The declaration of goods (Decree 6) must be accompanied by the commercial invoice, the bill of lading or any other transport document and any license or permit applicable to the goods.



- As noted in D.E. 354, in these cases the bill of lading must indicate that the goods are consigned to the logistics operator within the Park.
- In regards to the commercial invoice, it is important to note that when the goods do not yet have a final recipient (customer), an invoice must be made for customs purposes only, so that it can contribute and sustain the value of the merchandise at the time of its entry into the Logistics Park. This invoice must be in the name of the entity that owns the goods itself, to avoid any understanding of transfer of title to third parties. Subsequently, once the sale is made to the customer, the final commercial invoice may be issued, on which the reissue of the goods will be supported. Our current regulations and the various free trade agreements and treaties signed by the Republic of Panama allow this invoice to be issued from abroad.
- In respect to the rules of origin, in the case of goods with Central America origin, article 17 of the Central American Regulation on the origin of goods provides that a merchandise shall not lose origin when it passes through the territory of third party countries, as long as during transport and storage it is not transformed or subjected to operations other than packing, packing, re-packing, loading, unloading or handling to ensure conservation.
- In the case of goods produced in countries with which Panama maintains Free Trade or Trade Promotion Agreements or Treaties, the origin of the goods is governed by each of these agreements or treaties.
- The logistics operator when sending the products to end customers outside Panama must indicate that the goods have complied with all the rules set forth in the Law and in the International Treaties concerning origin.



## D) Logistics Services under the EMMA Regime

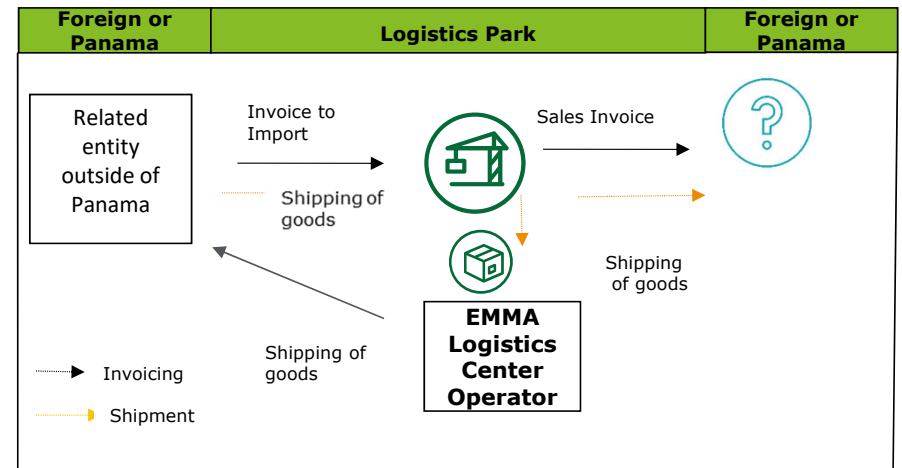
The new EMMA Regime, created by Law No. 158 of 2020 aims to encourage Multinational Manufacturing Industry-Related Groups to consider Panama to establish a service center to assist the other companies in the Group at the regional level. This new regime establishes as part of its catalogue of services logistics services, such as the storage, deployment and distribution center for components or parts, required for the provision of manufacturing-related services, services related to repair and maintenance, assembly and conditioning. Therefore, an entity under the EMMA Regime may also develop the aforementioned services within the Park with the particularity that such services.

**GENERALITIES:**

Under this scheme, the goods are sent by the related entity abroad or in Panama to the logistics operator in the Logistics Park, which receives it to perform one of the services indicated above. The goods will leave the Logistics Park once the goods are sold to the final customers.

**LEGAL ASPECTS:**

- For legal purposes, the sale of the goods made by a foreign entity will be considered as an external sale. That is, it will be understood equally as if the goods had not touched Panamanian territory. The foreign entity owning the goods must not register in Panama to carry out these sales.
- At no time transfer of title will be made to the EMMA entity, it will only be necessary to enter it in your name on the bill of lading. The title will remain in the related entity abroad until the end-customer sale is performed.
- In order to establish within the Logistics Park under the EMMA Regime, a legal person (corporation, limited liability, etc.) or a branch of a foreign company must be registered as specified in article 7 of Law No. 158 of 2020.
- For the purpose of the EMMA entity registration, the interested entity must request a license before the Multinational Companies Commission of the Ministry of Industry and Commerce of Panama, submitting the following requirements:

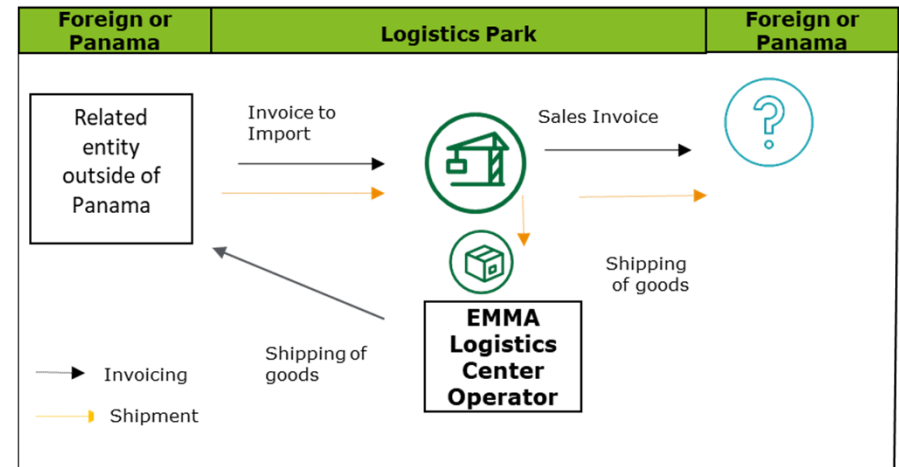


1. Assets of the Multinational Group
2. The places or subsidiaries, parent company or operative subsidiaries
3. The commercial or industrial activities or operations carried out by the multinational company
4. The listing of shares on the stock exchange of local or international securities
5. The minimum of full-time employees and the annual operating expenses of the multinational company in the Republic and Panama.
6. Any other requirement requested by the Commission

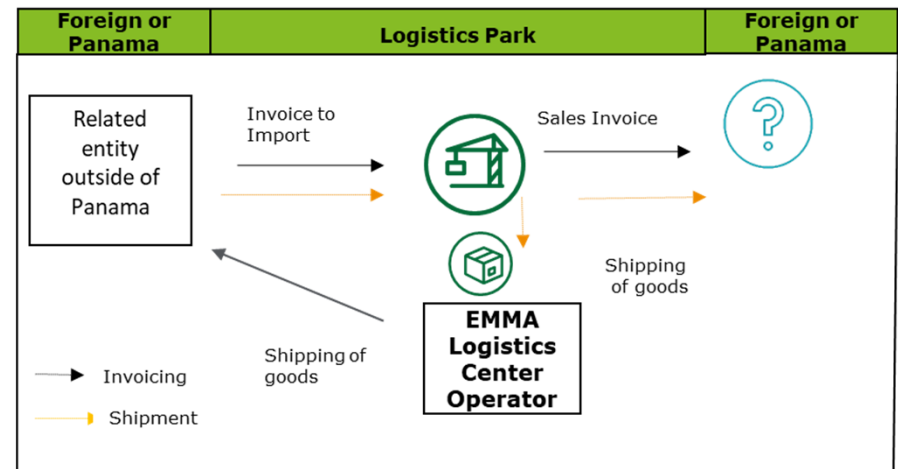
The application must be accompanied by an affidavit stating that it is desired to establish a multinational company in Panama for the provision of any of the services related to manufacturing and that it meets the requirements to opt for the license.

**TAX ASPECTS – FOREIGN ENTITY THAT OWNS THE GOODS:**

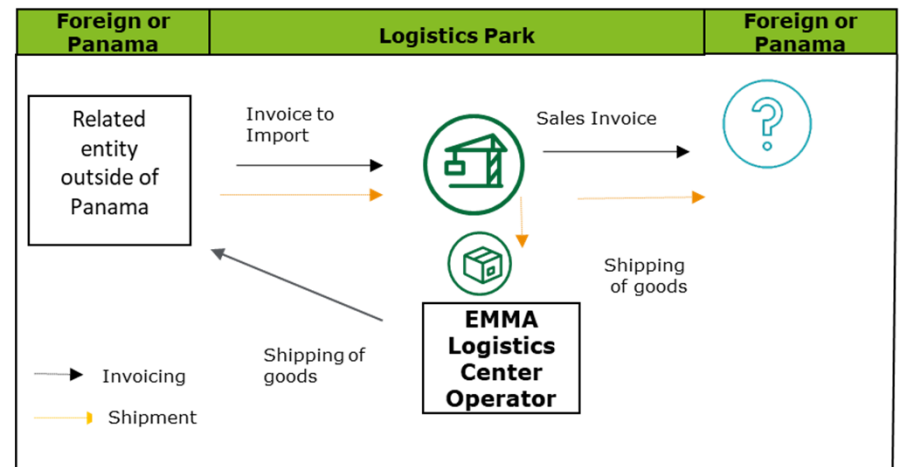
- According to D.E. 354 it is considered that the invoicing of the goods under this scheme will be considered as a foreign source income for the foreign entity not subject to income tax in Panama since it is considered as a goods in transit (see glossary definition.)
- The Tax Code provides in Article 694-Paragraph 2, that it is foreign income to invoice from an office in Panama the sale of goods or products that move exclusively abroad. While it is true that the Tax Code has not yet been adequate to include cases in transit, it is understood that this assumption also qualify within the definition of foreign income as indicated in the Decree.
- Similarly, the same regulation states that the foreign entity is not considered to have a permanent establishment ("EP") for the retention of the goods owned within one of the areas of international trade mentioned above.
- In regard to ITBMS, article 1057-V of the Tax Code states that this tax is only levied on the transfer of movable tangible property and services carried out within Panamanian tax territory. As this sale is not considered to be executed within Panamanian tax territory, is not subject to this tax.



- On the assumption that the goods consigned to the logistics operator have as its final destination a customer within the Republic of Panama tax implications will be generated for the owner of the goods since it would no longer be considered as goods in transit. First, income from that sale would be considered as local in source, subject to income tax in accordance with Article 694 of the Tax Code. Likewise, the sale would no longer be considered as an external sale but as nationalization of goods subject to the ITBMS (Article 1057-V of the Tax Code). Similarly, according to Article 762-M of the Tax Code, the holding of facilities, warehouses, shops or other establishments in the country constitutes an EP. Although in this case the foreign entity will not have any of these physical spaces on its own, its merchandise would be occupying a space in the facilities of the logistics operator. Therefore, the goods to be destined for the Panamanian market may constitute a risk of PE being temporarily stored in the Logistics Park for export to Panamanian territory.
- In case of the formation of an EP, the entity shall be subject to all other national taxes, i.e., dividend tax, trading notice tax, etc. (see glossary for rates and tax base).
- **TAX ASPECTS – LOGISTIC OPERATOR:**
- With regard to the logistics operator established under the EMMA Regime in the Logistics Park, these will be its fiscal implications:
  - Income tax: Companies will pay 5% income tax on taxable net income. For the purposes of calculating taxable income, employees' salaries may be considered even if the recipient is exempt from income tax. Similarly, the tax paid abroad (in case of provision of services to related parties abroad) as well as the amounts withheld by taxpayers in Panama may be applied as credit. At a minimum, after applying these credits, at least 2% of the net taxable income generated must be paid (article 20 of Law 158).



- Dividend and complementary taxes and branch tax: According to article 22 of Law 158, EMMA-licensed entities are exempt from these taxes.
- Commercial Notice tax: Under Section 24 of Law 158, EMMA-licensed entities are exempt from this tax.
- Fiscal Equipment: EMMA licensed companies are not subject to the use of fiscal equipment under Article 23.
- ITBMS: The provision of services provided by an EMMA licensed entity does not cause ITBMS as long as they are provided to persons who do not generate taxable income in the country. However, if they are provided to Panamanian entities generating taxable income, the ITBMS must be charged. For the purchases of goods and services EMMA licensed companies are exempt from ITBMS. (Article 26 of Law 158).
- Foreign remittance tax: Natural or legal persons established in Panama shall retain 5% of the amount to be remitted to an EMMA licensed entity. While the EMMA licensed entity must retain 5% over 50% of the amount held to persons domiciled outside Panama. (article 27 of Law 158)
- Transfer Pricing Regime: Companies with an EMMA license are subject to the Transfer Price Regime for those transactions that carry out with related entities abroad, or that are established in the Republic of Panama or in any free zone, free zone, or special economic area. (Article 21 of Law 158)
- Legal Stability: Companies with EMMA licenses shall enjoy legal stability for a period of 10 years from their registration under article 55 of Law 158



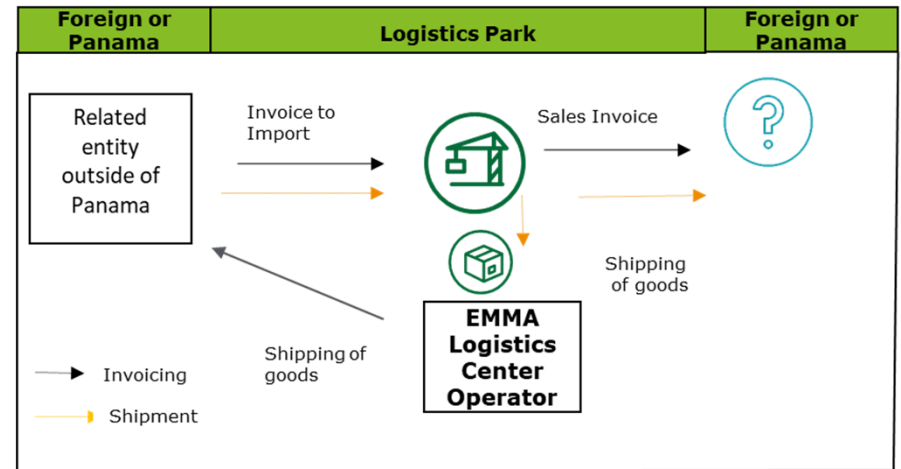


**CUSTOMS ASPECTS:**

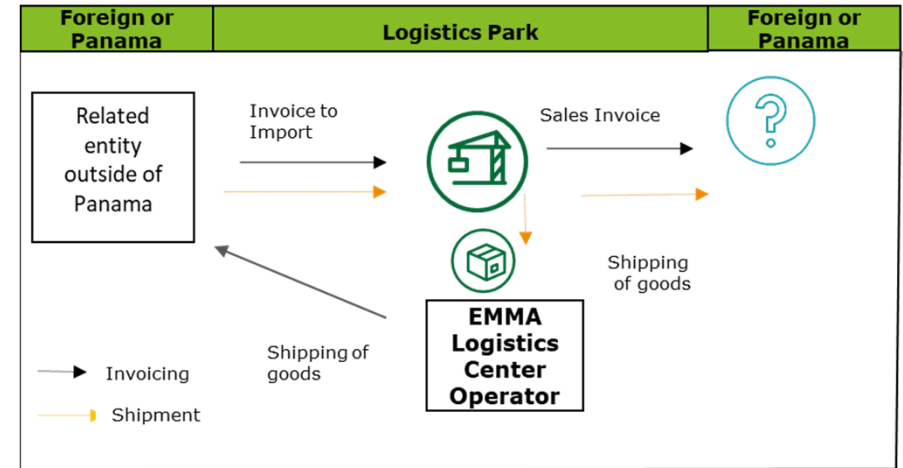
- The introduction of the goods to the Logistics Park will not be affected to any import tax, since the Park is located within the customs enclosure of the Colón Container Terminal ("Colon Container Terminal") which is a primary customs area where the entry of goods enjoys the suspension of customs duties.
- On this assumption, the goods may remain stored within the DAL, for the term of one (1) year, extendable for one (1) additional year, after this term has expired, the goods must be reissued to a foreign country, or they would become abandoned under the authority of the Customs.
- Since the goods are in a DAL, under the Deposit Regime, where taxes and customs duties are suspended, it is considered that the goods have not entered Panamanian customs territory, therefore, as soon as the goods leave the logistics Park to the end customer, there shall be no applicable tax or duty.
- The re-shipment of goods deposited in a DAL can take place through customs procedures for re-export, transit, temporary import for inward processing, temporary export for inward processing and any other that develops later by customs.
- In all cases it is up to the consignee of the goods who has the power in application of the principle of self-determination, to decide the regime to which they wish to submit them, as stated in Art. 91 of Decree Law 1 of 13-2-2008.

**CUSTOMS DOCUMENTATION:**

- According to Article 317 of the RECAUCA, all goods to be destined for a customs regime must be sustain by a declaration of goods, which for this case is the form of Decree 6 already indicated. The goods will enter the Logistics Park under the customs deposit regime, since the Park is located within a Primary Customs Zone. Therefore, at the time the foreign entity ships the merchandise to the Logistics Park consigned to the logistics operator, this formality must be complied with.
- In both cases, all customs procedures will be carried out by the logistics operator. The declaration of goods (Decree 6) must be accompanied by the commercial invoice, the bill of lading or any other transport document and any license or permit applicable to the goods.



- As noted in D.E. 354, in these cases the bill of lading must indicate that the goods are consigned to the logistics operator within the Park.
- In regards to the commercial invoice, it is important to note that when the goods do not yet have a final recipient (customer), an invoice must be made for customs purposes only, so that it can contribute and sustain the value of the merchandise at the time of its entry into the Logistics Park. This invoice must be in the name of the entity that owns the goods itself, to avoid any understanding of transfer of title to third parties. Subsequently, once the sale is made to the customer, the final commercial invoice may be issued, on which the reissue of the goods will be supported. Our current regulations and the various free trade agreements and treaties signed by the Republic of Panama allow this invoice to be issued from abroad.
- In respect to the rules of origin, in the case of goods with Central America origin, article 17 of the Central American Regulation on the origin of goods provides that a merchandise shall not lose origin when it passes through the territory of third party countries, as long as during transport and storage it is not transformed or subjected to operations other than packing, packing, re-packing, loading, unloading or handling to ensure conservation.
- In the case of goods produced in countries with which Panama maintains Free Trade or Trade Promotion Agreements or Treaties, the origin of the goods is governed by each of these agreements or treaties.
- The logistics operator when sending the products to end customers outside Panama must indicate that the goods have complied with all the rules set forth in the Law and in the International Treaties concerning origin.



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# Cabinet Decree No. 10 of April 27, 2021 – Customs Logistics Warehouses

# Cabinet Decree No. 10 creating the Customs Logistics Warehouses

<p><b>Definition</b></p>	<p>Customs Logistic Deposits (DAL) are companies authorized by the National Customs Authority to operate under the Customs Deposit regime at ports and airports. In order for a legal entity to establish and operate a DAL, it must comply with the requirements of the Central American Uniform Customs Code (CAUCA) and its regulations (RECAUCA). It should be noted that legal persons operating in a free zone cannot be constituted as a DAL until 3 years have passed since the entry into force of this Cabinet Decree.</p>
<p><b>Allowed Activities</b></p>	<p>In the DAL, all the activities permitted under THE CAUCA and RECAUCA can be carried out, which includes: Consolidation or de-consolidation; division and classification of packages; packaging, packaging and re-packaging; packaging; marking, remarking and labeling; placing trade information legends; extracting samples for analysis or registration; and any other related activity, provided that it does not alter or modify the nature of the goods.</p> <p>In addition, the DALs may carry out activities necessary for the preservation of the goods during transport or storage (such as aeration, ventilation, drying, cooling, freezing; packaging, de-packaging, re-packaging); bulking of goods, formation of a set or assortment of goods, or grouping in packages; removal of dust or damaged parts, application of oil, rust paint or protective coatings; dilution with water or any other aqueous solution, ionization and salting, and simple mixture.</p> <p>The activities described above may be provided by DAL operators or any other natural or legal person who has authorization from the Customs Authority.</p>
<p><b>Permanence period</b></p>	<p>The period of stay of the goods in the DAL shall be one year extendable for one more year upon reasoned request, after this period has expired, shall be considered a goods in abandonment.</p>
<p><b>Entry of Goods</b></p>	<p>The entry of goods into the DALs shall be made electronically before the arrival at port or airport or upon arrival at the deposit, in accordance with the forms established for this purpose by the National Customs Authority.</p> <p>Goods of foreign in inside the DALs shall be exempt from the payment of any customs duties and duties, until they are presented for release for consumption for entry into customs territory or destination to another regime other than deposit. The entry of goods into the DALs will not cause them to lose their origin.</p> <p>In cases of re-export of goods stored in deposit regime, re-export or provenance certificates may be issued in accordance with the provisions of the free trade agreements signed by Panama.</p>
<p><b>Dispatch of Goods</b></p>	<p>Goods of foreign origin or origin found in the DAL may be dispatched to other primary zones, free zones, airports and ports for consumption in the rest of the national territory and for external markets under the terms and conditions established in national legislation and in accordance with the procedures established by the National Customs Authority, prior to the fulfillment of tax obligations that may apply.</p> <p>The goods that are released from the DAL, must be declared under one of the customs procedures established in the norm, subject to payment of the applicable duties, taxes or fees.</p>

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# Customs Valuation Regime

## Determination of the value of goods for customs purposes:

For the purposes of the valuation of goods, our legislation (article 188 of RECAUCA, adopted by Law No. 26 of 2013) states that the elements of the value of goods for customs purposes are as follows:

- The transaction value of the goods
- Transportation costs of the goods imported until port
- The costs of loading, unloading and handling caused by the transport of the imported goods to the port
- The cost of insurance

In order to determine the customs value of the goods, Article 2 of Cabinet Decree 26 of 1996 stipulates that the transaction value must be taken, i.e. the price actually paid or payable, provided that the following circumstances occur:

1. That there are no restrictions on the transfer or use of the goods by the purchaser;
2. That the sale or price does not depend on any condition or consideration whose value cannot be determined in relation to the goods to be valued;
3. That the seller does not directly or indirectly reverse any part of the product of resale or any subsequent assignment or use of the goods by the purchaser;
4. That there is no link between the buyer or seller, or that, if it exists, the transaction value is acceptable for customs purposes.

In case of a buyer-seller relationship, it cannot be assumed that the value of the transaction is not acceptable. An examination should be made of the circumstances of the sale which may have an impact on the price.

The aforementioned rule states that if the sale is made to a related persons, the value must be accepted, provided that it is close to any of the prices or values indicated below:

- ❖ Transaction value on sales of identical or similar goods made to buyers not linked to the seller, for export to the same country
- ❖ Customs value of identical or similar goods in accordance with the unit price and sold in the same state in which they are imported
- ❖ Customs value of identical or similar goods in accordance with the reconstructed value, i.e. taking values to determine the cost of value of materials and manufacture, overhead costs, the cost or value of loading, unloading, handling and insurance costs.

The Customs Authority may have reason to doubt the accuracy of the data or documents submitted which may cause the importer to be required to submit or provide additional information to clarify the doubts of the Valuation Officer.

Customs Authority determine which goods must submit a declaration of value at the time of importation into Panamanian fiscal territory. The goods stored in the DALs do not require the presentation of this declaration, which is only required for the import-to-consumption regime.



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# Tax Comparison Table for Logistics Services

## Tax comparison table for Logistics Services

Logistics Operator									
Tax Regime	Tax Implications								Possibility of constituting DAL
	ISR	Dividend	Complementary	Operation Notice	Remittances Abroad	ITBMS	Transfer Pricing	Automatic Legal Stability	
<b>CLP</b>	Exempt	10% local income, 5% on foreign and exempt income	5% local income, 2% on foreign and exempt income	2% on capital or net assets	12.5% if conditions for withholding are met	Exempt; Local Purchases: Taxed	Yes	No	Yes
<b>EMMA (Service can only be provided to related entities) – Law No. 158 of 2020</b>	5%	Exempt	Exempt	Exempt	2.50%	Exempt to entities abroad, 7% to locals; Local Purchases: Exempt	Yes	Yes	No
<b>AEEPP – Law No. 41 of 2004 and modifications.</b>	Exempt if the substance conditions are met	Exempt: If the entity was registered prior to January 1, 2017 5%: If it was registered after that date	Exempt: If the entity was registered prior to January 1, 2017 2%: If it was registered after that date	Exempt: If the entity was registered prior to January 1, 2017 0.5%: If it was registered after that date	Exempt	Exempt for the provision of services Local Purchases: taxed	Yes	Yes	No
<b>CFTZ – Law No. 8 of 2016</b>	Exempt (General Regulations)	5%	2%	0.5%	12.% if the conditions for retaining are met	Exempt; Local Purchases: taxed	Yes	No	No



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# Executive Summary

# Executive Summary

**Legal**

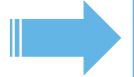
**Tax**

**Customs**

**Scenario A: No process with recipient**



It will be understood as an offshore sale where there will be no transfer of ownership in Panama



For the foreign entity there will be no tax implications as long as the goods do not have final destination to Panama. For the logistic operator will be rent exempt the service.



The goods shall be consigned to the logistics operator. The commercial invoice will be required to enter the goods to the Park. There will be no alteration of origin.

**Scenario B: No process without recipient**



It will be understood as an offshore sale where there will be no transfer of ownership in Panama



For the foreign entity there will be no tax implications as long as the goods are not in the final destination to Panama. For the logistics operator the service will be exempted.



The goods shall be consigned to the logistics operator. An invoice must be issued by foreign entity to its own name for customs purposes of introduction to Panama. There will be no alteration of origin

# Executive Summary

**Legal**

**Tax**

**Customs**

**Scenario C: With minor process**

It shall be understood as an offshore sale where there will be no transfer of ownership in Panama.

For the foreign entity there will be no tax implications as long as the goods do not have final destination to Panama. For the logistic operator will be rent exempt the service.

The goods shall be consigned to the logistics operator. A commercial invoice will be necessary to introduce the goods to the Park. There will be no origin alteration

**Scenario D: EMMA Regime**

There will be a service contract between the foreign entity and its related EMMA entity. There will be no transfer of ownership to EMMA. It will not be understood as a local sale when the goods leave the EMMA Regime for abroad

For the foreign entity there will be no tax implications as long as the goods do not have as final destination Panama. EMMA will apply the EMMA Special Tax Regime to the operator.

The goods shall be consigned to the logistical operator EMMA. An invoice must be issued by foreign entity to its own name for customs purposes of introduction to Panama. Although the parts are not originating in Panama, the assembly process will affect the origin of the final product.

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# Conclusions and Recommendations

## Conclusions and Recommendations

- Executive Decree No.354 of 2020 is a legal instrument that will help to encourage the logistics sector in Panama and allow the country to continue to exploit the benefits of its geographical position and its network of ports along the Atlantic and Pacific Oceans.
- CLP represents an important alternative for those foreign companies that want to use Panama as a regional connection point for their supply chain and thus be able to optimize costs in their operation.
- From Decree No. 354 of 2020, of Law No. 158 out of 2020 a number of tax benefits and incentives are granted that definitely reinforce Panama's competitive level at the logistics level. Foreign entities may enter their goods in these sites without any fiscal impact, provided that such goods are subsequently sent abroad or to some special tax or customs regime. Logistics operators could benefit from the tax exemptions granted to the provision of these services to foreign entities. Logistics services may include minimal processing processes which will not affect the origin of the product and will unlikely alter customs values.
- In addition, with the promulgation of Cabinet Decree No. 10 out of 2021, that creates the Customs Logistic Deposits Regime, CLP Logistics Park receive an extra value. Besides the fiscal regime established in the D.E. 354 of 2020, which foreign entities can enjoy, the goods could remain in Panama for 1 years, extendable to one (1) additional year.
- Our recommendation is that in order to place these goods in the Logistics Parks even if a sale is not perfected, an invoice for customs purposes should be made containing the list of these goods, with their unit value, quantity, weight and other important characteristics, made in the name of the same owner of the merchandise, to avoid any risk with respect to the transfer of title.
- In case of sales to Panamanian territory of those goods that are in Logistics Parks, the risk of fiscal implications could be generated for entities abroad, and the possible generation of an PE in accordance with the local regulations in force unless they are carried out with entities constituted in special economic areas, free zones, free zones, primary zone or customs port enclosures.
- In regard to customs implications, it is important to consider that any shipment of goods whether entering or leaving any customs regime entails the presentation of a declaration of goods at the time of dispatch to a fiscal regime and in accordance with the principle of self-determination. Declarations must be accompanied by a commercial invoice always.
- For the purposes of providing logistic services related to manufacture industry between related companies, we recommend the EMMA regime, which offers various tax benefits to companies obtaining the license.

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### **Exceptions**

The scope of this report is limited to analyzing the tax effects in Panama of the situation described. This opinion is based on our experience and knowledge of the laws, regulations in force in the Republic of Panama regarding taxation and taxes at the time of issuing this report.

Our responsibility for the conclusions and/or recommendations expressed here is limited by our understanding of the matters discussed, based on information received from you. Changes in the terms of reference, or applicable legislation or administrative criteria could alter the content of the reference.

Considering that the tax aspects could later be subject to review and interpretation by the tax authorities concerned, there is always the possibility that this interpretation may be different from that issued by our Firm.

Kind regards,

A handwritten signature in black ink, appearing to read 'Yira Cobos', written in a cursive style.

Yira Cobos  
Tax Partner



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