

Law 526 of 2026

Economic substance rules in Panama

Law 526 of May 28, 2026 (the “Law 526”) was published in the Official Gazette, establishing economic substance rules applicable to entities that are members of multinational groups incorporated or domiciled in Panama that obtain passive income from foreign sources. As of the date of this publication, Law 526 has not yet been regulated. The Executive Branch has 90 days to issue the corresponding regulations.

WHO DOES IT APPLY TO?

Law 526 applies to entities that are members of multinational groups, incorporated or domiciled in Panama, that obtain passive income from foreign sources.

Relevant definitions:

1. Multinational group. Defined as two or more entities linked by ownership or control that are tax residents in different jurisdictions, including parent companies, subsidiaries, and permanent establishments. Any entity that is (or should be) included in consolidated financial statements under applicable accounting standards will also be considered part of the multinational group, even if it was excluded for size or materiality reasons.

Therefore, if the corporate structure does not meet the definition of a multinational group, the provisions of Law 526 do not apply to it. For example, the following structures do not fall under the scope of the law:

- (i) A Panamanian entity that has a bank account and whose shareholder is a natural person.
- (ii) A Panamanian entity with no tax residency that holds shares in a foreign company.
- (iii) A single Panamanian entity that owns real estate abroad.

2. Passive income from foreign sources. Passive income from foreign sources includes:

- Dividends or profit participations
- Interest
- Royalties
- Capital gains
- Real estate capital income
- Other movable capital income

Panamanian entities to which Law 526 applies must annually report this income in their income tax return for the corresponding fiscal period.



WHAT IS ECONOMIC SUBSTANCE?

Law 526 defines economic substance as the effective existence and use in Panama of human resources, assets, facilities, management, administration, control, risks, and operating expenses appropriate to the type of passive income obtained.

In addition to filing the income tax return, entities subject to Law 526 must demonstrate compliance with certain conditions in order to be considered “Qualified Entities”. Those that fail to meet the substance requirements established by Law 526 will be considered “non-qualified entities” and will be subject, on an exceptional basis, to a 15% rate on the taxable net income of the respective fiscal period.

ECONOMIC SUBSTANCE CONDITIONS

Every entity of a multinational group domiciled in Panama must submit the necessary information to demonstrate compliance with the following conditions for adequate economic substance in order to be considered a Qualified Entity:

Condition #1: Human resources and facilities in Panama

The Panamanian entity must have in Panama qualified and duly remunerated personnel dedicated to the administration, management or control of the income-generating assets, as well as adequate facilities.

Condition #2: Strategic decision-making in Panama

Adopt within the national territory the strategic decisions necessary for operations and bear the risks in Panamanian territory.

Condition #3: Adequate operating expenses in Panama
Incur adequate operating costs and expenses in Panamanian territory, separate from personnel remuneration and facilities, directly related to the assets generating passive income from foreign sources.

OUTSOURCING

Law 526 permits outsourcing activities related to conditions #1 and #3, provided they are carried out with service providers located in Panama that have adequate human resources and facilities.

The adequacy of human resources, facilities, operating costs, management, control, and risk management will be evaluated considering the nature, scale, and complexity of the activity, the type and amount of passive income earned, the number of income-generating assets, the level of risk taken, and the operational structure of the multinational group in Panama.

APPLICATION OF ECONOMIC SUBSTANCE CONDITIONS TO EQUITY HOLDING ENTITIES AND PASSIVE REAL ESTATE ENTITIES

Equity holding entities

In the case of entities that are members of a multinational group incorporated or domiciled in Panama that obtain passive income from foreign sources and whose main activity is the holding of equity participations in other entities, local and/or foreign, involving the non-habitual acquisition, conservation and disposal of such participations, they will not be required to comply with conditions #2 and #3, provided they do not carry out any substantial commercial or investment activity in connection with the participations acquired in other entities.

In view of the foregoing, they must comply with condition #1 in order to be considered a Qualified Entity.

Passive real estate entities

Conditions #2 and #3 also do not apply to Panamanian entities that are members of a multinational group and obtain passive income from foreign sources and whose main activity consists exclusively in acquiring and/or holding or transferring, on a non-habitual basis, real estate properties.

EXCLUSIONS

Law 526 expressly excludes from its application:

- Merchant marine entities registered under Panamanian legislation
- Financial entities supervised by the Superintendency of Banks, Securities Market Superintendency or Insurance and Reinsurance Superintendency, with respect to income linked to their regulated activity
- Investment fund managers or pension fund managers authorized by the Securities Market Superintendency

However, the exclusions provided in Law 526 will apply only when the entity demonstrates, before the competent authority, compliance with the following conditions: (i) maintaining its licenses current, (ii) that its income is directly linked to the regulated activity, and (iii) that it maintains its effective administration in Panama.

Additionally, managers or administrators of investment funds, pension funds, or other regulated, authorized, and supervised collective investment vehicles in Panama, to the extent that the passive income from foreign sources:

a. is generated within the framework of investment activities carried out on behalf of the funds, vehicles, or managed assets, in accordance with their regulated purpose and investment policy; and

b. is subject to a special tax treatment provided for said funds or vehicles under applicable Panamanian legislation for investment funds, pension funds and other collective investment vehicles, provided that the economic substance, presence and supervision requirements established in said legislation and the corresponding sector regulation are met.

TIMEFRAMES

Law 526 will take effect as of the 2027 fiscal year. This means that economic substance obligations will be enforceable as of that fiscal period, exclusively for those Panamanian entities that, under Law 526, fall within its scope and are therefore subject to compliance with economic substance conditions.

It is important to note that these obligations do not apply generally to all Panamanian entities, but exclusively to those that qualify under the provisions of Law 526 and to which the economic substance rules apply.

Additionally, Law 526 comes into effect in fiscal year 2027 and as such the first income tax return for these obligations will be filed in 2028.

HOW DOES THIS APPLY TO YOUR STRUCTURES?

If you are part of a multinational group with entities incorporated or domiciled in Panama that generate passive income from foreign sources, we recommend reviewing your structures to assess whether they comply with the conditions set forth in Law 526.

This bulletin is informational in nature and does not constitute legal advice. To obtain an opinion on your particular situation, we recommend that you contact us directly.