RC GROUP

INFORMATION MEMORANDUM

PARA	Clients
DE	RC Group
FECHA	June 2026
ASUNTO	**Panama Economic Substance Law - Law 526 of 2026**

I. BACKGROUND

On **May 28, 2026,** Panama enacted **Law 526 of 2026.** This law amends the Tax Code by introducing economic substance requirements for certain passive income obtained from foreign sources by entities belonging to multinational groups operating in Panama. The law takes effect as of fiscal year 2027, and the Executive Branch has 90 calendar days to issue its implementing regulations, which will be determinative for the practical application of the law, particularly regarding economic substance, outsourcing and holding structures.

Purpose of the reform:

To condition the non-taxable treatment of foreign-source passive income on the accreditation of genuine economic substance in Panama, reaffirming the territorial principle and aligning the Panamanian tax framework with international economic substance standards.

II. SCOPE OF APPLICATION

The law applies to **entities that are members of multinational groups** incorporated or domiciled in Panama that receive passive income from foreign sources. A multinational group is defined as two or more entities linked by ownership or control, **tax resident in different jurisdictions.**
The passive income categories covered include:

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

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Holding entities are within the scope of this law. While they may benefit from reduced substance requirements, they are not excluded. Any entity that forms part of a multinational group and receives passive income from abroad must evaluate its position under this new regime.

III. ECONOMIC SUBSTANCE REQUIREMENTS

To maintain the **non-taxable treatment** of foreign-source passive income, an entity must annually demonstrate, for each type of passive income received, the following conditions:

- **Qualified and compensated staff** dedicated to the management of income-generating assets, with adequate physical facilities in Panama.
- **Strategic decisions** adopted within Panama, including the effective assumption of associated risks.
- **Adequate and proportional operating costs and expenses** incurred in Panama, directly linked to the income-generating assets.

The sufficiency of these elements will be assessed based on the nature, scale, complexity and amount of the passive income obtained, as well as the operational structure of the group in Panama.

Special Regime: Holding Structures

Entities whose principal activity consists of the passive holding of participations in other companies, without engaging in substantial commercial or investment activity over those participations, as well as entities exclusively dedicated to the non-habitual holding of real estate, have reduced substance requirements. They need to only demonstrate qualified and compensated staff with adequate physical facilities in Panama. They are not required to evidence local strategic decision-making or proportional operating expenses.

Outosourcing of functions

The law expressly permits substance requirements to be met through the engagement of third-party service providers in Panama. The provider must have adequate human resources and facilities for the services rendered, and no overlap of hours or resources is permitted across multiple client entities. The implementing regulations will further define the level of control and supervision the entity must maintain over outsourced activities.

IV. CONSEQUENCES OF NON-COMPLIANCE

Entities that fail to demonstrate economic substance will be classified as **non-qualified entities** and their foreign-source passive income will be subject to a flat rate of **15% on net taxable income,** calculated after deducting duly documented costs and expenses directly related to the generation of the passive income. This is without prejudice to penalties, surcharges and interest applicable under the Tax Code.

Excluded entities:

Regulated financial entities including banks, insurance companies, securities intermediaries and fund managers supervised by their respective regulators in Panama, as well as merchant shipping companies registered under Panamanian maritime law, are expressly excluded from the regime with respect to passive income derived from their ordinary regulated activities.

V. OUR RECOMMENDATION

Given that the law takes effect in fiscal year **2027** and the implementing regulations will be published in the coming months, **now is the right time to review each corporate structure** with multinational exposure and determine the necessary actions in advance. We recommend initiating an analysis to establish:

- Whether the entity forms part of a multinational group under the criteria of the law.
- Whether the entity receives or could receive foreign-source passive income as defined by the law.
- The current level of economic substance the entity maintains in Panama.
- The measures required to demonstrate compliance before the law comes into force.
- The tax impact in the event the entity is unable or unwilling to demonstrate economic substance.

VI. NEXT STEPS

We invite you to schedule a consultation with our tax experts, who can assist you in reviewing your legal and corporate structure and in defining the actions necessary to ensure compliance with Law 526 of 2026 before it enters into force.

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For a specific analysis of your situation, please contact our attorneys.