



INCORPORATION OF PANAMA CORPORATIONS IN THE REPUBLIC OF PANAMA

The Panamanian Corporation Law of 1927 was patterned after the Delaware Corporation Law of the United States and since its enactment there has been no change to its text.

Panamanian corporations are not limited to the specific purposes of the articles of incorporation. Art. 19 of our General Corporation Law provides in item 11 that every corporation will have the power to:

" . . . do whatever may be necessary for carrying out the objectives stated in the articles of incorporation, its amendments, or whatever may be necessary or convenient for protecting and benefiting the corporation and, in general, to undertake any lawful business even though it may not be similar to any of the objectives stated in the articles of incorporation, or in its amendments."

Kindly note that under Panamanian Law, there are no restrictions concerning shareholdings in Panamanian Corporations. The Articles of Incorporation can provide for issuance of shares to the bearer or in registered form. Since the issuance of shares is not a matter of public records, they should only be recorded in the Corporation's Stock Registry Book, which is kept by the Directors of the Company.

There are no requirements to have a paid-in capital, nor any time limit, in which the authorized capital must be fully paid, except for local banks and local insurance companies. However, the incorporation of companies for banking, insurance or reinsurance activities is subject to a special agreement from governmental regulatory agencies for each of these activities.

The corporation may increase its authorized capital by means of an amendment to its articles of incorporation and the payment of the respective registration fees.

There are not obligations to issue the share capital, and this can be done gradually as no compulsive deadlines exist.

Corporations conducting business outside of Panama do not require a commercial licence for offshore activities.

Incorporation and annual maintenance expenses and fees are not only reasonable, but are normally the lowest of all tax haven countries.

Companies with standard articles of incorporation can be obtained immediately and their legal status is always accessible for verification at the Panama Public Registry.

Officers and Directors may be non-residents of the Republic of Panama.

There are no requirements as to stock ownership by nationals.

The Directors of the corporation do not need to be shareholders.

TAXATION

- 1. -** Taxation in the Republic of Panama is based on the principle of the source of income. Therefore, profits arising from activities outside of Panama or offshore dividends or funds are not subject to taxation by Panamanian law. Panama income tax is levied only upon net income obtained from operation within Panama; income obtained from offshore operations is not considered as income obtained from "sources within Panama" and therefore is not subject to taxation.
- 2. -** Panamanian corporations, which function exclusively abroad, are not subject to the payment of any Income or other taxes in the Republic of Panama. The only tax payable by these corporations is the Annual Franchise Tax in the sum of US\$ 300.00, which is payable each year in advance. This Franchise Tax becomes due each year on the anniversary of the company's initial registration at the Panama Public Registry.
- 3. -** There are no requirements to file any report or tax returns with the Panamanian government regarding any offshore activities, except for the annual government franchise tax mentioned above.
- 4. -** There are no currency restrictions in Panama. The U.S. Dollar is of current use in normal commercial activities.
- 5. -** In regard to inheritance and gift taxes, assets located in foreign countries are not subject to Panamanian Law.

PROCEDURE TO INCORPORATE

- 1. -** The procedure for the incorporation of a Panamanian company is handled locally by members of our firm. All steps can be completed upon receiving your instructions and the required information as indicated hereunder.
- 2. -** The following is the basic information furnished for the incorporation of a Panamanian company:
 - a.** List of suggested names, in order of preference. The name must contain a word or abbreviation, which would indicate that the company is a corporation (Stock Company). Acceptable words or abbreviations are "Corporation", "Incorporated", "Sociedad Anónima" (meaning "Corporation"), "Corp.", "Inc." or "S.A."
 - b.** The objects or purposes of the corporation (shipping investment, shipping or investment or any special object. If no specific objects are requested, we will use our standard articles.)
 - c.** Full names and addresses of Directors and Officers. Panamanian

corporations must have at least three (3) Directors, and a President, Treasurer and Secretary, who may or may not be the same Directors of the Company. Please note that corporate bodies can not be appointed Directors nor Officers of Panamanian corporations. Furthermore, one officer may hold one or more posts. If desired, our firm can supply nominee Directors/Officers. If this is preferred, please note that we would keep the custody of the corporation's books this end.

- d. Capital structure of the incorporation, i.e., amount of authorized capital, number and kind of shares. There is no established minimum or maximum capital. The shares can be established as Nominative (registered), Bearer or Convertible (i.e., to the name of the Shareholder - registered - or to the Bearer). The registration tax payable will depend on the amount of the capital.

3. - Registration of Panamanian corporations at the Public Registry Office can be completed within approximately one (1) week as of receipt of your instructions and relevant information required. However, we do maintain an inventory of shelf companies ready to be delivered with designated names and directors provided by our firm.

This information leaflet was prepared for the assistance of the clients of **KUZNIECKY & CO.** It does not completely cover the topics treated, but was conceived to answer basic questions in the area of Panamanian Corporate Law.

If and when specific questions or problems arise, please refer to the relevant laws and/or obtain specific legal advice.