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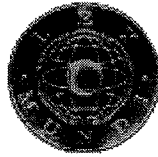
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PANAMA - The New Foundation Law

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As part of Panama's continuous efforts to maintain a leading role as one of the predominant offshore tax haven centers of the world, the National Assembly approved Law N° 25 of 1995, by which Foundations of Private Interests are regulated, commonly known as "Private Foundations".

The law regulating Private Foundations has been inspired, and to a large extent modeled after, the law regulating the Family or Mixed Foundation (*Stiftung*) of the Principality of Liechtenstein, which has for many years been widely used in Europe and in particular Switzerland. Consequently, while there are great similarities with the Liechtenstein law, there are a few innovations which make the Panamanian law more modern and more flexible than the Liechtenstein model, such as:

- The Panamanian law does not differentiate between the Family Foundation and the Mixed Foundation, preferring to include under one name ("Foundation of Private Interest") both the Family and Mixed Foundations of Liechtenstein.
- The minimum amount of assets required to constitute a foundation is US\$10,000, which does not have to be deposited in advance.
- The yearly tax is only US\$150.00.
- The adoption of the figure of the "Protector", as widely used in the Anglo-Saxon trusts.
- The "forced heirship" rules of other countries will not be enforced against a Panamanian Private Foundation.

The following are some of the salient features of Law N° 25, to wit:

- The foundation may be formed by one or more natural or juridical persons either personally or

through third parties.

- The foundation becomes a legal entity once the charter has been recorded at the public registry office.
- The foundation charter can be drafted in any language that uses the Latin alphabet.
- It is a non-profit organization that may, nevertheless, engage in commercial activities on a non-habitual basis provided all proceeds derived therefrom are used exclusively towards the purposes of the foundation.
- The foundation is irrevocable unless otherwise provided for in the foundation charter.
- Assets must be endowed for a specific purpose.
- The foundation charter need only contain general information to wit: name, purposes, initial capital, domicile, resident agent, members of the foundation council, manner of appointing the beneficiaries, destination of the estate and manner of liquidating the foundation, etc.
- Members of the foundation, public servants or private sector employees must keep confidential their knowledge of the activities, transactions or operations of the foundation.
- The administrative body is the foundation council, having the powers established by the founder in the foundation charter. Unless the council is a juridical person, the number of members shall be no less than three.
- The registration charges and the annual tax to be paid by a private foundation are similar to those established for Panamanian corporations.
- The foundation can be created by means of a private document. Even foundations with mortis causa effect can be created by private document without need for a will, as long as it complies with the formalities of the law on foundations.
- For all legal purposes, the assets of the foundation constitute a separate estate from that of its founder. Therefore, they may not be seized, attached or subject to any law suits or precautionary seizures, except for obligations of the foundation or legitimate rights of the foundation's beneficiaries. In any case, such assets will not respond for the personal obligations of the founder or beneficiaries.
- Statute of limitations is set at three years for creditors to exercise their rights to contest validity of transfers made to the foundation.
- All provisions in force pertaining to drug trafficking shall apply to foundations.
- Controversies for which no special procedure is specified in the law shall be resolved by summary proceeding. Moreover, the foundation charter or its regulations can provide for arbitration in resolving controversies.
- Foundations with assets located abroad and the income arising therefrom are exempt from all taxes, contributions, duties, liens or assessments of any kind or description with the exception of the annual franchise tax of US\$150.00.
- A foreign foundation may re-domicile in Panama through a Certificate of Continuation. By the same token, Panamanian foundations may transfer or become subject to the laws and jurisdiction of another country if so provided in their foundation charter or their regulations.

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