

MORE FAQs ABOUT Real Estate IN PANAMA.

Q: Is it safe for foreigners to buy property in Panama?

A: Absolutely. Buying property in Panama is very safe. There are over a dozen laws in Panama established specifically for protecting foreign investments, not to mention that private property in Panama is protected by the constitution of the Republic of Panama. Thousands of foreigners own property in Panama, and we process Panama real estate transactions for foreigners every day without a problem.

Q: Is it legal for foreigners to buy property in Panama?

A: Yes, it is legal for foreigners to own titled property in Panama in their personal names, although we normally recommend that clients hold all property in the name of a Panamanian corporation for asset protection and income tax reasons. Panama "possession rights" (as opposed to titled) property, however, should always be held in the name of a Panamanian corporation, where the foreign person is the shareholder (or a Panama Foundation or trust can be appointed as the shareholder in place of the foreign person) of the Panama corporation.

Q: What are the procedures to buy real estate in Panama?

A: The first step is to find a Panama property you like, and negotiate the price and terms of the sale with the seller (or Panama real estate broker).

Second, you should seek a qualified attorney in Panama to handle the due diligence and title search on the property, putting your Panamanian attorney in contact with the seller (or real estate broker) to gather copies of the property title documents and survey (if available).

Third, have your attorney prepare a written Promise to Buy/Sell Contract to lock in the property sale and secure the terms agreed upon (a deposit of 10% is usually required by the seller upon signing the promise to buy/sell contract), plus this gives you time to do the due diligence and get your funds into the escrow account.

Fourth, once the attorney has confirmed the property title is clean, then the final closing is scheduled, where the buyer/seller sign the final Buy/Sell Contract.

Fifth, payment is made to the seller, broker, and attorney from escrow (in some cases, buyers/sellers agree that payment is made after the public deed of the property is transferred and registered into the buyers name).

Sixth, the Buy/Sell Contract is registered at the Public Registry where they transfer the property title ownership from the previous owner to the new owner.

Q: Is it safe to buy a Panamanian corporation's shares which hold title to property in Panama?

A: Yes, as long as a proper due diligence investigation is done on the Panama Corporation and a proper title search is done on the property that the corporation holds, then it is generally safe to buy property this way in Panama. It is important to hire qualified attorneys to handle the due diligence, and put the proper clauses in the Buy/Sell Contract of Shares of the corporation, such as; (1) a clause that guarantees the buyer that the corporation does not have any pending debt or liability other than that established in the contract and indemnifies the buyer from any such liability, (2) a clause that makes the seller responsible for any liability for previous actions of the corporation and/or it's directors, and (3) a clause that guarantees the buyer that the purchase is for 100% of the corporations shares as well as for 100% of the property title number xxx (with the description of the property), which is duly owned by the corporation, whose shares are owned by (the seller).

Q: Are there any government taxes or fees for transferring property titles from the sellers name to the buyer's name?

A: Yes. The Panamanian government charges a 2% property title transfer tax. The 2% is based on the registered value (the value established in the registered deed of sale). In addition, there is a 3% advance of capital gains tax, based on the sale value. Plus, there are other fees charged by the Public Notary and the Public Registry. The notary fees range from \$200 to \$300. The Public Registry fees for registering a buy/sell contract for the sale of real estate in Panama will vary depending on the sale value.

Q: Who normally pays for the property title transfer tax in Panama, the buyer or the seller?

A: It is standard practice in Panama for the seller to pay for the 2% title transfer tax, and the 3% advance of capital gains tax, however, in some cases, this is open to negotiation.

Q: Who normally pays for the closing costs on Panama real estate transactions, the buyer or the seller?

A: Generally, each party pays for their own closing costs. For example, the seller pays his/her attorney to review the buy/sell contract, and the buyer pays his/her attorney for drafting the buy/sell contract, doing the title search, title transfer, and escrow services. However, in some cases, buyers and sellers negotiate special terms whereby the buyer or the seller pays all closing costs, so it really depends on the particular negotiation between buyer and seller.

Q: What are the average closing costs for Panama property transactions?

A: The closing costs vary depending on the particular transaction. Generally closing costs, excluding taxes, are approximately 2% of the sale value.

Q: How long does it normally take to register a property title transfer in the Public Registry of Panama?

A: In some cases, it can be done within 2 business days, if we pay extra for quick expediting. However, in normal circumstances, it takes from 1 to 3 weeks, depending on the volume of transactions at the Public Registry.

Q: How long does it normally take, from start to finish, to purchase property in Panama?

A: The time frame from start to finish is normally about 6 weeks, however, it really depends on a variety of factors which are dependent initially on the buyer and the seller, the negotiation between buyer and seller, and subsequently dependent on the attorneys and the public registry. Some transactions are handled in a few days, others take months.

Q: What are the normal legal fees for property transactions?

A: You can estimate about 2 to 3% of the transaction value which includes including legal, escrow, notary, and public registry costs.

Q: Are escrow companies normally used in Panama for property transactions?

A: Escrow services are relatively new to Panama, so Panamanians are not very familiar with the term "escrow", although it is quickly becoming a standard for real estate transactions nationwide with more and more Panamanian realtors selling to foreigners who are accustomed to using escrow companies in property transactions. Panama Title & Escrow Inc. is one of the first escrow companies in Panama, duly registered at the Public Registry, and has been in operation for over two years now, handling hundreds of property transactions for clients all over the world.

Q: Do purchase contracts for Panama real estate transactions need to be in Spanish, in order for them to be legally enforceable in Panama?

A: No. The law does not require a buy/sell contract to be in Spanish to be legally enforceable, however, if there is ever a dispute over the transaction in a court of law in the Republic of Panama, then the court will require that the contract be translated to the Spanish language by an official (licensed) translator of that language. When we prepare buy/sell contracts, we always prepare the original in Spanish, and we provide our clients with an official English translation of the contract.

Q: What is normally accepted as a down payment for purchasing property in Panama?

A: Generally, sellers will accept 10% as a down payment upon signing the promise to buy/sell contract. The down payment is shown as “good faith” on behalf of the buyer, so that the seller knows that the buyer is serious. However, the down payment really depends on the particular transaction and the negotiation that takes place. We generally recommend that the buyer put 100% of the money in escrow, and then deliver an Irrevocable Payment Guarantee Letter from the Panama bank in favor of the seller, which stipulates that the seller will be paid once the property title is transferred – this is the safest option.

Q: If I am a US citizen, can I use my IRA or 401K money to buy property in Panama?

A: We are not US tax or investment advisors and therefore cannot offer any investment or tax advice. We have had experiences with a few clients that have used their IRA or 401K accounts to purchase property in Panama. There are several US pension management / financial companies who offer retirement account services that facilitate movement of your IRA or 401K funds into self-directed retirement accounts, through which you can then invest in property anywhere in the world. If you would like to receive an updated list of these financial companies, please contact us for details.

Q: Is it legal to buy options on property in Panama?

A: Yes, it is legal to buy options on property in Panama, however, it is an uncommon practice in Panama, and most sellers do not understand the concept.

Q: Are options available on property in Panama?

A: Yes, you can buy options on property in Panama. However, most sellers in Panama do not understand the concept of options on property, therefore, it requires that you educate the seller in this concept so that they agree to offer you an option to purchase their property.

Q: Do sellers offer owner financing or leases with purchase options in Panama?

A: Yes, leases with purchase options are common in Panama, although most sellers are interested in simply selling, not lease optioning. However, please note that rental or lease contracts must be registered with the MIVIOT (Ministerio de Vivienda), which is the “Ministry of Housing” in order for the lease to be legal in Panama.

Q: Is it legal to block public access to the beach if I own beach front property?

A: The laws in Panama offer public access to all beaches, oceans, lakes and rivers in Panama. Unless there is access within 1,000 meters from your property, you must allow public access, according to the law.

Q: What is the liability for real estate investors that “flip” (buy & immediately sell) properties?

A: The liability for real estate investors in Panama is limited. The main liability for real estate investors are property taxes, 2% transfer taxes, and 3% advance of capital gains taxes. As long as you deliver what is promised according to the terms of the buy/sell contract, buying and selling property in Panama is limited to the terms and conditions of the purchase or sale contract.

SECTION 2: TAX RELATED QUESTIONS FOR REAL ESTATE IN PANAMA.

Q: Are there property taxes in Panama, if so, how much?

A: Property taxes are only levied on properties that have a registered value of US\$30,000 or more (registered value is the value stated on the public deed that is registered at the Public Registry). The maximum annual property tax is 2.1% for any property valued above \$75,000. For further information see our section on Panama Real Estate Taxes. Possession Rights properties do not incur property taxes, since the property technically belongs to the government of Panama.

Q: Are there property title transfer taxes in Panama?

A: Yes, the government of Panama charges 2% of the sales price. This is why most sophisticated investors utilize Panama corporations to hold ownership to property, so that when they sell the property, they simply sell the shares of the corporation as a whole, therefore avoiding the title transfer costs,

avoiding the 2% title transfer tax, and avoiding the 3% advance of capital gains tax. However, when transferring the shares of a corporation that holds property, a 5% share transfer tax is applied.

Q: Are there capital gains taxes on the purchase and sale of real property in Panama?

A: Yes, there is a 3% advance of capital gains tax based on the sale value. See our section on Panama Capital Gains Taxes for more information. The capital gains tax is triggered upon the transfer of the title at the Public Registry.

Q: Is there a way to minimize capital gains taxes on property sales in Panama?

A: Up until the tax laws were changed in 2006, real property owned by a Panama corporation could be sold avoiding the capital gains by simply selling the corporate shares instead of the real estate itself. Since the corporation still owned the real property, real estate title didn't transfer to the buyer who merely bought the corporation and all of its assets. That loophole has been abolished, and now there is a 5% share transfer tax when selling shares of a corporation that holds property. Our accountants and attorneys can evaluate your particular case to determine how the taxes can be minimized in accordance with the laws of Panama.

Q: Is there self-employment tax for real estate investors in Panama?

A: There are no "self-employment" taxes for real estate investors in Panama, however, local real estate investors are taxed on their income the same way any other person would be taxed on locally generated income, and they are required to file annual tax declarations. Please note that Panama income taxes on real estate purchases and sales can generally be avoided through certain structuring techniques using Panamanian corporations and Private Interest Foundations.

Q: Are there inheritance taxes in Panama, whereby the Panamanian government would keep a certain percentage of my beneficiaries' inheritance?

A: No. Inheritance taxes have been completely abolished in Panama.

Q: Are tax lien certificates available in Panama?

A: Yes, the Ministry of Economics & Finance of Panama issues what is called a "Paz y Salvo" that certifies that there are no taxes or tax liens on the property title.

Q: If I am a US citizen, can I apply a 1031 exchange to buying property in Panama, thus deferring my US capital gains taxes?

A: This is a question for a US tax attorney or US CPA. Panama Offshore Legal Services does not offer US tax advice, however, if you contact us, we can refer you to a licensed US tax attorney who can answer your questions about US tax laws. LandAmerica Lawyers tax attorneys responded to this question as follows; "Assuming the case that a client is looking to relinquish a U.S. Property and purchase a replacement property in Panama, then the 1031 Exchange would fail, because foreign property is not considered to be "Like-Kind" to U.S. property under the IRS code. However, if the client is relinquishing foreign property, then an exchange into the Panama property might be possible. Of course, a tax-deferred exchange would only make sense in that situation if the client would be subject to U.S. Capital Gains tax liability for the relinquished property transfer because only U.S. taxes be deferred using Section 1031."

SECTION 3: FINANCING & INSURANCE IN PANAMA.

Q: Are financing sources readily available for foreigners (non-Panamanians) to get mortgages on property in Panama?

A: There are many banks in Panama that offer financing to foreigners (non-Panamanians) to purchase property in Panama.

Q: What documentation is normally required for foreigners (non-Panamanians) to obtain financing on property in Panama?

A: Most banks in Panama that finance foreigners require the following documentation for the applicant(s) of the loan: (1) complete photocopy of passport (all pages of passport), (2) photocopy of one additional form of ID, such as a drivers license, (3) two original financial reference letters, (4) two original commercial, professional, or personal reference letters, (5) photocopy of utility bill showing physical address, (6) curriculum vitae (personal education/work resume), (7) last 2 years financial statements, (8) last 2 years personal income tax returns, (9) photocopy of property documentation (registered title deed & registered survey), (10) original recent certificate of title deed from the Public Registry, (11) appraisal on the property by an approved appraisal company. In addition, they will need a copy of the Promise to Purchase Agreement.

Q: What are the interest rates for financing property in Panama?

A: The interest rates are generally right in line with those offered in the USA, however, interest rates really depend on a variety of factors, including: (1) type of property (personal residence, commercial property, investment property, etc.), (2) age of construction (new construction, old construction), (3) term of the loan (short term, long term, etc.), (4) applicants age and status (retired, etc.), and (5) additional collateral offered to the Panama bank as guarantee on the loan.

Q: Are there any special financing deals available in Panama, for retirees?

A: Yes. If you have obtained a Pensioned Visa (this is a type of resident visa for foreigners who have proven that they receive a lifetime pension of at least US\$1,000 per month) in Panama, and you are of a certain age, then you qualify for special discounts for interest rates on mortgages.

Q: Are there any special financing deals available in Panama, for first time buyers?

A: Yes. There is a law called the "preferential interest law", which offers special low, partially government subsidized interest rates for first time buyers on new residential properties up to \$120,000. Contact Us for details.

Q: How much do property appraisals cost in Panama?

A: Property appraisals in Panama are generally around 0.015% of the value, depending on the particular property. For example, a simple 3 bedroom home in Panama City would probably cost around \$100 to \$150, however, a 300 acre farm located in the interior of Panama, with 2 homes, barn, horses, cattle, and other property improvements could cost \$1,000 or more for an appraisal due to the complexity of the appraisal as well as the transportation costs and time frame involved.

Q: How much do home inspections costs in Panama?

A: Home inspections in Panama can range between \$50 up to \$500, depending on the particular property.

Q: Is title insurance available for property in Panama?

A: Yes, title insurance is offered by reputable international title insurance companies on literally all types of property in Panama. Contact Us for details.

Q: Is title insurance required for financing property in Panama?

A: No. Title insurance is not generally required for financing, however, fire insurance is always required when financing for buying property with construction improvements (house, commercial building, etc.).

Q: What does title insurance cost in Panama?

A: The cost for title insurance in Panama depends on the insurance company and the property you want title insurance for. Generally, title insurance costs around 1% of the value of the property, with a minimum of around \$1,000 insurance premium. The title insurance is a one time payment with most insurance companies.

Q: What insurance agents do you recommend in Panama?

A: We recommend several insurance agents we work with. In the event that you need a quote, so feel free to Contact Us for details.

SECTION 4: DEVELOPING REAL ESTATE IN PANAMA.

Q: Is it possible for foreigners to enter in the real estate development business in Panama?

A: Absolutely. The Panamanian government welcomes foreigners to develop real estate in Panama.

Q: If I buy a large plot of land, what are the procedures to get residential lot development permits with the Panamanian government?

A: There are 6 steps in order to develop Real Estate in Panama. The first step is to get the property surveyed topographically by a Panamanian licensed topographer / engineer. Second, you need a Panamanian licensed architect to design the master plan. Third, you need a Panamanian engineer to prepare the construction drawings. Fourth, you need a Panamanian licensed environmental engineer to prepare an environmental impact study. Fifth, you present the project to and get it approved by the ANAM (Autoridad Nacional del Ambiente), which is the equivalent of the Environmental Enforcement Agency in the USA. Sixth, you present the project to the municipal engineer to get the construction permits. Depending on the project, there may be additional steps necessary in terms of permitting.

Q: What is the time frame and cost to obtain permits for developing residential lots in Panama?

A: The time frame and cost to develop real estate in Panama depends on the size of the project, and the region you are developing in. Some projects can take years to obtain permits and cost upwards of US\$50,000, others can take as little as 3 months and cost a few thousand dollars. It really depends on the specifics of the project, where it is located, and the impact it will have on the environment. Usually, once the environmental impact studies are approved by ANAM, the other municipal permits are relatively quick.

Q: What are the costs for surveying property in Panama?

A: Currently, surveyors charge in the range of \$200 per lot or per hectare (2.4 acres per hectare) for regular linear surveys (outlining the perimeter, size and borders of the property). Topographical surveyors charge from \$150 up to \$500 per hectare, depending on the location of the property, condition of the property, and the specifics needed (for example, if you want special information included, such as identifying specific species of trees, depth of rivers, etc.). It is important to hire a surveyor that is reliable, and who will provide accurate data, as well as computerized surveys (usually done using a program called Autocad) for the project.

Q: What do environmental impact studies cost in Panama?

A: Environmental impact studies range in price from as little as \$750 to \$75,000, depending on the size of the project, impact on the environment, and depending on the environmental engineer you hire for the job. For large developments with high environmental impact, we recommend hiring a top quality environmental engineering firm to handle the environmental impact study, as they have the human resources and organization to prepare a study that will get approved under harsh scrutiny and difficult circumstances. For smaller, non-impacting projects, an individual environmental engineer may suffice. However, please note that the environmental impact study is detrimental to the permitting of the project, and it is important to hire qualified engineers to prepare your environmental impact study, otherwise, if the project is rejected by ANAM, you may be forced to wait up to 2 years to re-present the project for approval.