

**** IMPORTANT NOTICE ****
ACCOUNTING RECORDS
New Requirements

The Republic of Panama, by means of Law No. 52 of 2016 (“Law No. 52”), established the requirement that all legal entities (corporations, limited liability companies and private interest foundations) are required to keep accounting records and maintain supporting documentation for a minimum period of five (5) years.

Recently, the referred Law No. 52 was amended by means of Law No. 254 of November 11, 2021 (“Law 254”), establishing additional requirements regarding the “accounting records” to be kept by legal entities.

Below are some questions to help us explain the amendments to Law N° 52:

What is the main amendment to Law N° 52 introduced by Law N° 254?

It establishes the obligation that the accounting records to be kept and maintained by legal entities must be provided to the resident agent, for its custody, at the latest within four (4) months following the expiration of each fiscal year, i.e., no later than April 30 of each year. In other words, the accounting records as of December 31, 2021, must be delivered to us no later than April 30, 2022, and likewise at the expiration of the subsequent fiscal years.

The accounting records may be provided to the resident agent in original or copy and shall be kept by the resident agent in a confidential manner, unless they are required by a competent authority of the Republic of Panama, according to the applicable laws.

Where can the original accounting records be kept?

The original accounting records may be kept in the possession of the legal entity anywhere in the world or in Panama under the custody of the resident agent. If the original accounting records are kept in a place other than the offices of the resident agent, the legal entity is required to inform, annually and in writing, the resident agent of the name and contact data of the person who keeps the original accounting records and supporting documentation in

his/her custody, as well as the physical address where they are kept.

What are accounting records according to Law N° 52?

Accounting records are understood as those that clearly and precisely indicate the operations, both accounting and financial, of the legal entity, its assets, liabilities and equity, as well as those that serve to determine its financial situation with reasonable accuracy at all times and allow the preparation of financial statements.

What kind of accounting records must legal entities keep?

- Legal entities engaged exclusively in being holding companies for assets, such as real estate, shares, participation quotas, bank accounts and/or investment accounts, among others, must provide, as accounting records, a document containing the following information:
 - (i) Value of the assets;
 - (ii) The income generated by such assets; and
 - (iii) The liabilities relating to such assets.

The information may be provided with the annual delivery to the resident agent of a balance sheet containing the amount of the assets, liabilities and income of the legal entity for the previous fiscal period.

- Legal entities engaged in the purchase and sale of negotiable instruments and public or private securities, in order to profit from their resale or by any other means of market speculation, must deliver the following:
 - (i) Account statement of the Custodian; or
 - (ii) The balance sheet of the legal entity.
- Legal entities that carry out commercial acts outside the Republic of Panama must deliver:
 - (iii) A journal and a ledger.

Which companies are exempted from providing accounting records or copies thereof to the resident agent?

The following legal entities are exempted from the obligation to provide the resident agent with the accounting records or a copy thereof on an annual basis:

- a) Legal entities listed on a recognized local or international stock exchange.
- b) Legal entities owned by an international or multilateral organization or by a State.
- c) Legal entities that are owners or charterers of vessels registered exclusively under the international service of the Merchant Marine of the Republic of Panama.
- d) Legal entities that carry out commercial operations within the Republic of Panama.

What is supporting documentation under Law N° 52?

Supporting documentation is defined as that which includes contracts, invoices, receipts and/or any other documentation necessary to support transactions carried out by a legal entity.

What are the consequences for a legal entity in case of failure to provide the original or copy of the accounting records to the resident agent in a timely manner?

The resident agent must report such fact to the regulatory body and such non-compliance could result in: (i) fines to the legal entity of US\$5,000.00 to US\$1,000,000.00; (ii) the suspension of the corporate rights of the legal entity; and (iii) the inability to register any type of document in the Public Registry and to obtain certificates issued by such Registry. Furthermore, the resident agent is obliged to resign as such with respect to the legal entity who does not comply.

How long accounting records and supporting documentation must be maintained in the event of dissolution?

In case of dissolution, the accounting records and supporting documentation or their respective copies for the five (5) years prior to the registration of the dissolution must also

be kept by the legal entity and be available for a minimum period of five (5) years from the registration of the dissolution. These documents must be provided to the resident agent in order to proceed with the dissolution procedures.

For any additional information or further assistance, you may require regarding accounting records requirements, please do not hesitate to contact us at the following e-mail address: accountingservices@icazalaw.com.

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