

LABOUR & EMPLOYMENT

Panama



Labour & Employment

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Quick reference guide enabling side-by-side comparison of local insights, including legislation, protected employee categories and enforcement agencies; worker representation; checks on applicants; terms of employment; rules on foreign workers; post-employment restrictive covenants; liability for acts of employees; taxation of employees; employee-created IP; data protection; business transfers; termination of employment; dispute resolution; and recent trends.

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Table of contents

LEGISLATION AND AGENCIES

Primary and secondary legislation

Protected employee categories

Enforcement agencies

WORKER REPRESENTATION

Legal basis

Powers of representatives

BACKGROUND INFORMATION ON APPLICANTS

Background checks

Medical examinations

Drug and alcohol testing

HIRING OF EMPLOYEES

Preference and discrimination

Probationary period

Classification as contractor or employee

Temporary agency staffing

FOREIGN WORKERS

Visas

Spouses

General rules

Resident labour market test

TERMS OF EMPLOYMENT

Working hours

Overtime pay

Vacation and holidays

Sick leave and sick pay

Leave of absence

Mandatory employee benefits

Part-time and fixed-term employees

Public disclosures

POST-EMPLOYMENT RESTRICTIVE COVENANTS

Validity and enforceability

Post-employment payments

LIABILITY FOR ACTS OF EMPLOYEES

Extent of liability

TAXATION OF EMPLOYEES

Applicable taxes

EMPLOYEE-CREATED IP

Ownership rights

Trade secrets and confidential information

DATA PROTECTION

Rules and obligations

BUSINESS TRANSFERS

Employee protections

TERMINATION OF EMPLOYMENT

Grounds for termination

Notice

Severance pay

Procedure

Employee protections

Mass terminations and collective dismissals

Class and collective actions

Mandatory retirement age

DISPUTE RESOLUTION

Arbitration

Employee waiver of rights

Limitation period

UPDATE AND TRENDS

Key developments of the past year

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LEGISLATION AND AGENCIES

Primary and secondary legislation

What are the main statutes and regulations relating to employment?

The main statutes and regulations relating to the Employment Labor Law of the Republic of Panama are:

- the Constitution;
- the Law (including the Labor Code, supplementary laws and other rules of law with equal or inferior hierarchy);
- international treaties ratified by the Republic of Panama;
- the applicable collective bargaining agreement (if any);
- the internal labour regulations, jurisprudence, custom and their usage by a company.

Law stated - 25 March 2022

Protected employee categories

Is there any law prohibiting discrimination or harassment in employment? If so, what categories are regulated under the law?

Law 7 of 14 February 2018, regulates all matters related to the protection of the honour, dignity, physical and psychological integrity of individuals who are victims of acts of discrimination.

This Law establishes measures to prevent and prohibit discriminatory acts, such as sexual harassment, bullying and racism.

Law stated - 25 March 2022

Enforcement agencies

What are the primary government agencies or other entities responsible for the enforcement of employment statutes and regulations?

The primary government agency responsible for the enforcement of employment statutes and regulations in Panama is the Ministry of Labor.

Law stated - 25 March 2022

WORKER REPRESENTATION

Legal basis

Is there any legislation mandating or allowing the establishment of employees' representatives in the workplace?

The National Constitution of Panama recognised the right of association for employers, employees, workers and professionals of all classes for purposes of economic and social activities.

A union under Panamanian law is any permanent association of employees, employers and professionals of any class established for the study, improvement, protection and defence of its common economic and social interests.

In Panama, the employees' unions are:

- Trade unions: if they comprise persons of the same professions.
- Company unions: if they comprise persons of several professions, occupations or specialities.
- Industrial unions: if they comprise persons of several professions, occupations or specialities who work for two or more companies of the same kind.
- Mixed or multi-occupational unions: mixed or multi-occupational unions, if they comprise persons of diverse or unrelated companies. These might be established only when, in a specific city, district, province and region, the number of employees of the same trade is less than 50.

The most common type of unions in Panama are company unions and industrial unions.

Law stated - 25 March 2022

Powers of representatives

What are their powers?

Unions have the power to represent their members in disputes, controversies and claims that may arise, and to sue or claim on their behalf and to sue or claim on behalf of them individually or collectively, or to intervene in individual or collective conflicts, controversies and claims, that may have been promoted.

Law stated - 25 March 2022

BACKGROUND INFORMATION ON APPLICANTS

Background checks

Are there any restrictions or prohibitions against background checks on applicants? Does it make a difference if an employer conducts its own checks or hires a third party?

Under Panamanian law, the company can request an employee's background check for labour reasons.

The employer or a third party can request the background check for work purposes on behalf of the employee, but it will require the applicant's authorisation.

Law stated - 25 March 2022

Medical examinations

Are there any restrictions or prohibitions against requiring a medical examination as a condition of employment?

Panamanian law has not regulated medical examinations as a condition of employment. However, if a company has established these examinations as a condition of employment, there is a high risk that the practice will be considered discriminatory.

Despite the aforementioned, we have to mention that Law 82, which regulates gender violence, establishes that the Ministry of Labor must create policies that allow access to jobs, in terms of recruitment and selection for women, including not requiring a pregnancy test to access a job.

Law stated - 25 March 2022

Drug and alcohol testing

Are there any restrictions or prohibitions against drug and alcohol testing of applicants?

Article 126, 9 of the Labor Code established that an employee must submit to physical examinations by a licensed medical doctor when seeking employment or during the course thereof if so ordered by their employer or competent authorities. These examinations are to verify that they do not use drugs prohibited by law or have any mental disturbance that might endanger their fellow employees' safety or the employer's equipment and facilities.

We confirm that the law does not establish restrictions or probations against drug tests. Therefore, a company may reserve the right to hire an employee that does not want to submit to such tests.

Law stated - 25 March 2022

HIRING OF EMPLOYEES

Preference and discrimination

Are there any legal requirements to give preference in hiring to, or not to discriminate against, particular people or groups of people?

Nowadays, no preference in hiring has been established by law.

Law stated - 25 March 2022

Must there be a written employment contract? If yes, what essential terms are required to be evidenced in writing?

The employment contract shall be in writing and signed upon commencement of an employment relationship.

The employment contract shall contain:

- Personal data: Name, nationality, age, sex, civil status, address and number of the parties. If the employer is a juridical person, its name or trade name, address, name of its legal representative, and the data recorded in the Public Registry shall be provided.
- Dependents of the employee.
- Workplace: The place or places where the work or services are required to be performed.
- Term: If it is for a fixed period or an appropriate clause for an indefinite period of time or a specific piece of work.
- The duration and regular division of the workday.
- The wage, the form thereof and the day and place of their payment.
- The place and date of the signing of the employment contract.
- The signature of the parties.

Law stated - 25 March 2022

To what extent are fixed-term employment contracts permissible?

Fixed-term contracts are used to formalise temporary work relationships; in other words, they are used when the reason for hiring the employee responds to a need of a temporary nature for the company.

The term or duration of a fixed-term employment agreement may not be greater than one year. Only in cases of services that require special technical skills may an employment agreement provide for a term not exceeding three years.

Law stated - 25 March 2022

Probationary period

What is the maximum probationary period permitted by law?

When the rendering of service demands a particular competence or skill, the employer may include a trial period of up to three months in a labour contract, where any of the parties may terminate the labour relationship without any liability.

A trial period is not valid if it relates to a position that an employee has previously held in the same company.

Law stated - 25 March 2022

Classification as contractor or employee

What are the primary factors that distinguish an independent contractor from an employee?

In Panama, when we talk about a contractor, we refer to a relationship of professional nature. It is understood that those who render the service will not be under exclusivity conditions and will not be under legal subordination or economic dependence. Therefore, the professional is not subject to a work schedule, is not required to report daily at the offices of those who hired him or her, and neither is required to follow the orders or guidelines from who benefits from the service. Furthermore, the professional is not economically dependent on the company that hired his professional services.

In the case of employees, they will render services under legal subordination conditions or economic dependence on their employer.

Law stated - 25 March 2022

Temporary agency staffing

Is there any legislation governing temporary staffing through recruitment agencies?

The Labor Code regulates temporary staffing through recruitment agencies, specifically through article 95. This article establishes that prior authorisation of the Ministry of Labor allows companies to permit their employees to perform services for other companies that require them temporarily, for periods that do not exceed two months.

Companies that utilise the employee's services shall be jointly and severally liable with the company that employs them.

Law stated - 25 March 2022

FOREIGN WORKERS

Visas

Are there any numerical limitations on short-term visas? Are visas available for employees transferring from one corporate entity in one jurisdiction to a related entity in another jurisdiction?

There are no numerical limitations for short-term visas in Panama. However, there are numerical limitations on some visas, such as:

- Permit for foreign personnel hired as experts or technicians within 15 per cent of specialised personnel: this type of visa limits the hiring of foreigners to 15 per cent of the national workers registered in a company's payroll.
- Permit for foreign personnel hired as experts or technicians within 10 per cent of regular personnel: this type of visa limits the hiring of foreigners to 10 per cent of the national workers registered in a company's payroll.

Immigration Laws in Panama offer a series of residence visas for foreigners coming to render a service in Panama. Each case will need to be reviewed in order to recommend the best options.

Law stated - 25 March 2022

Spouses

Are spouses of authorised workers entitled to work?

The visa category that an authorised worker has selected determines their spouse's ability to work in Panama. Only some visa categories allow spouses to work while living in Panama.

Law stated - 25 March 2022

General rules

What are the rules for employing foreign workers and what are the sanctions for employing a foreign worker who does not have a right to work in the jurisdiction?

All foreigners that render services in the national territory must obtain authorisation from the Ministry of Labor.

If a foreigner does not have authorisation from the Ministry of Labor (a work permit), and the Ministry finds out that the company has a foreigner working without a work permit, the Ministry may impose a fine on the company of between US \$500 and US\$10,000. The company's licence can be suspended in case of recidivism.

Law stated - 25 March 2022

Resident labour market test

Is a labour market test required as a precursor to a short or long-term visa?

No market test is required under our legislation.

Law stated - 25 March 2022

TERMS OF EMPLOYMENT

Working hours

Are there any restrictions or limitations on working hours and may an employee opt out of such restrictions or limitations?

The Labor Code divides a day's 24 hours into two periods: a day period (6am until 6pm) and a night period (6pm until 6am).

There are three types of working days, to wit:

- Day shift: completed fully within the day period and its maximum duration is eight hours.
- Mixed shift: completed during both periods. However, it does not include more than three hours within the night shift, and its maximum duration is seven hours and 30 minutes.
- Night shift: includes more than three hours within the night period and its maximum duration is seven hours.

Employees may not work more than three hours overtime in one day, nor more than nine hours in one week.

When an employee works overtime in excess of the limits indicated, the excess shall be paid with a 75 per cent additional surcharge.

Law stated - 25 March 2022

Overtime pay

What categories of workers are entitled to overtime pay and how is it calculated?

We understand overtime, over hours or special shifts as the continuation of duties by the employee, once his or her shift has ended.

The Panamanian Labor Code does not discriminate nor exclude any category of employees with regard to the real possibility that any overtime worked is paid with the legal surcharges. Every employee has the right to receive the corresponding surcharges if they work overtime.

Overtime is paid with the following surcharges:

- 25 per cent of salary surcharge when carried out during the day period;
- 50 per cent of salary surcharge, when it is carried out during the night period, or when it is an extension of the mixed shift that started in the day period; and
- 75 per cent of salary surcharge when it is an extension of the night period, or of the mixed shift that started in the night period.

Law stated - 25 March 2022

Can employees contractually waive the right to overtime pay?

Employees cannot waive the right to overtime payment.

Vacation and holidays**Is there any legislation establishing the right to annual vacation and holidays?**

The Labor Code regulates vacations in Panama through article 54.

This article establishes that every employee is entitled to paid annual leave of 30 calendar days for every 11 months of continuous service, at a rate of one day for each day at the service of the employer.

Vacations are paid based on the average of the regular and special salaries earned by the employee during the 11 previous months, or the last basic salary, whichever is more favourable for the employee.

Regarding holidays, article 46 of the Labor Code establishes the following as mandatory days of rest:

- Days of national observance: 9 January and Holy Friday; and
- National holidays:
 - 1 January;
 - Tuesdays of Carnivals;
 - 1 May;
 - 3, 5, 10 and 28 November;
 - 8 and 25 December; and
 - the day that the president-elect of the republic takes office.

Law stated - 25 March 2022

Sick leave and sick pay**Is there any legislation establishing the right to sick leave or sick pay?**

Article 200 of the Labor Code establishes that from the time that the employment agreement commences, the employee shall begin to accrue leave for disability at the rate of 12 hours for every 26 days worked or 144 hours per year.

In other words, the employee will accumulate 18 days of sick leave per year.

Law stated - 25 March 2022

Leave of absence**In what circumstances may an employee take a leave of absence? What is the maximum duration of such leave and does an employee receive pay during the leave?**

The leaves of absence that employers are under the obligation to grant employees are:

- Leaves for partial shifts so that the employee may go to medical control appointments for their own care or that of children under two years of age. This leave is paid.
- An employee being chosen to represent the country or its corresponding social organisations during conventions, conferences, training activities, seminars, or national and international competitions related to work or sports is

entitled to keep earning their salary during the time required by the corresponding representation (article 160).

- In these cases, in the event of representations in the countryside, the period may not exceed three weeks, and abroad it can be of up to two months.
- An employee who is the father or mother of a disabled son or daughter is entitled to any necessary time to accompany the child to doctor appointments and required treatments.
- Necessary time is understood to be up to a maximum of 144 hours per year. This leave is paid. (Article 17 of Law 42 of 1999, concordant with what is established in article 14 of Executive Decree No. 88 of 2002.)
- When employees must be absent from work in order to appear as witnesses or act in any other proceedings before judges and officers of work, the employer cannot deny the corresponding leave. This leave is paid. (Article 823.)
- Employers must grant unpaid leave to any employee who must carry out a mandate or public office for a term of no less than six months, nor longer than two years (article 128, numeral 6).
- Employers must grant unpaid leave to directors of labour unions for the performance of any syndical mandate for a term of up to five years (article 128, numeral 7).
- Employers must allow employees to be absent from work in the case of 'serious domestic calamities' that have been duly proven (article 128, numeral 26).
- This leave is unpaid and the employer can discount it, or compensate it with an equal time of service during different hours within the employee's work shift (does not constitute overtime).
- Employees who serve as census workers or table juries during national elections are entitled to paid leave for their corresponding training.
- Leave for honeymoons, weddings, the birth of children and the death of an employee's family members are usually regulated through collective agreements or in the Internal Labor Regulations.

Law stated - 25 March 2022

Mandatory employee benefits

What employee benefits are prescribed by law?

Social security affiliation, which includes professional risk insurance, 13th-month pay and annual vacation.

In addition, any other benefit that the parties may agree on at the beginning or the end of the employment relationship.

Law stated - 25 March 2022

Part-time and fixed-term employees

Are there any special rules relating to part-time or fixed-term employees?

These are the special rules for employees hired through a fixed or part-time employment agreement.

- The employment agreement may not exceed one year.
- At the end of the contract term, the employee will only receive their pending salary, vacations and 13th-month pay.
- If the company decides to dismiss the employee without justified cause of termination, the employee will be entitled to receive an indemnity of an equal amount to the wage that they would have received during the remaining period of the contract.

Law stated - 25 March 2022

Public disclosures

Must employers publish information on pay or other details about employees or the general workforce?

No.

Law stated - 25 March 2022

POST-EMPLOYMENT RESTRICTIVE COVENANTS

Validity and enforceability

To what extent are post-termination covenants not to compete, solicit or deal valid and enforceable?

Since the Panamanian Constitutions established the right to work for every employee in Panama, these kinds of restrictions are not valid.

In any case, this will create a moral but not legal commitment for the former employees.

Law stated - 25 March 2022

Post-employment payments

Must an employer continue to pay the former employee while they are subject to post-employment restrictive covenants?

No.

Law stated - 25 March 2022

LIABILITY FOR ACTS OF EMPLOYEES

Extent of liability

In which circumstances may an employer be held liable for the acts or conduct of its employees?

An employer can be held liable for the acts or conduct of its employees when they cause damages to third parties while performing their duties for the company. For example, a driver who uses the employer's vehicle and has a collision, causing injuries to third parties.

Law stated - 25 March 2022

TAXATION OF EMPLOYEES

Applicable taxes

What employment-related taxes are prescribed by law?

Social Security

The Social Security Administration offers and manages in favour of all insured workers, the following programmes: illness, maternity, old age, disability, death and occupational hazards.

To pay for these programmes, employers must currently contribute to the Institution a monthly amount equivalent to 12.25 per cent of the totality of the salaries paid to their employees within the month in question, while each employee must contribute monthly 9.75 per cent of the total salary received from his or her employer

Educational insurance tax

The employee will contribute to the Social Security Institution 1.25 per cent of the total salary earned during a month.

The employer contributes to the Social Security Institution a monthly sum equivalent of 1.50 per cent of the total salary paid to the employees during a month.

Income tax

The employer is also obliged to deduct the income tax for each employee according to the tariffs contemplated in the following table.

Annual income	Tax rate
Up to US\$11,000	0 per cent
From US\$11,000 to US \$50,000	15 per cent
Over US\$50,000	US\$5,850 on the first US\$50,000 and 25 per cent on the amount exceeding US \$50,000.

Law stated - 25 March 2022

EMPLOYEE-CREATED IP

Ownership rights

Is there any legislation addressing the parties' rights with respect to employee inventions?

The Labor Code establishes three classes of inventions during the labour relationship that shall be the property of the employer:

- company inventions in which the process;
- the equipment, the technology, the elements of computer programming, the facilities, methods; and
- procedures belonging to the employer.

The inventions of services are those executed by the employees hired specifically for researching, studying and obtaining them. These inventions are property of the employer, but the inventor shall be entitled to have their name recognised as the author of the invention.

Free inventions are those where the force of ingeniousness of the employees dominates; these inventions shall belong to their makers.

Law stated - 25 March 2022

Trade secrets and confidential information

Is there any legislation protecting trade secrets and other confidential business information?

An employee must abstain from revealing their employer's technical, administrative, and commercial secrets to third parties unless prior authorisation is given. If the employee does not comply with this obligation, they may be dismissed with justified cause and will be unable to receive compensation.

Law stated - 25 March 2022

DATA PROTECTION

Rules and obligations

Is there any legislation protecting employee privacy or personnel data? If so, what are an employer's obligations under the legislation?

Law 81 on Personal Data Protection entered into force on 29 March 2021.

This law requires a company to have the prior, informed and unequivocal consent of an employee to share their personal data, unless an authorised authority requires this information.

Law stated - 25 March 2022

Do employers need to provide privacy notices or similar information notices to employees and candidates?

Under Panamanian labour law, it is not necessary.

Law stated - 25 March 2022

What data privacy rights can employees exercise against employers?

Through well-founded and legitimate reasons, the owner of the personal data may refuse to provide their data, be subject to a specific treatment, and revoke any previous consent.

Law stated - 25 March 2022

BUSINESS TRANSFERS

Employee protections

Is there any legislation to protect employees in the event of a business transfer?

The Panamanian Labor Code established that the change or substitution of an employer should not affect existing employment relationships in a manner prejudicial to employees.

Without prejudice to the legal obligations between an employer and employee under the civil law, the replaced employee shall always be jointly and severally liable with the employer for obligations existing under an agreement or imposed by law, which arose prior to the date of the substitution for a period of one year.

TERMINATION OF EMPLOYMENT

Grounds for termination

May an employer dismiss an employee for any reason or must there be 'cause'? How is cause defined under the applicable statute or regulation?

The main approaches for ending a work relationship are laid out below.

Through mutual agreement or consent

The mutual agreement is valid as long as it is in writing and does not involve the employee waiving any rights. These non-renounceable rights include the following:

- salary;
- vacation;
- 13th month; and
- in the case of work relationships of indefinite duration, the seniority premium.

It is worth mentioning that the indemnity payment is not an acquired labour right and consequently, it may be negotiated between the parties. Moreover, a termination through a mutual agreement that does not include payment of indemnity is completely valid.

Due to the expiration of the period agreed or due to the conclusion of the project.

Due to the employee's death

In this case, the employer must entrust to the Labor Courts, through a certificate of guarantee, the labour rights that the employee had accumulated until the moment of his or her death (article 155).

We clarify that there is no obligation to pay any indemnity to the family or heirs of the deceased employee.

This payment can be made directly by the employer since it does not require the mediation of a lawyer.

Due to the employer's death, when this inevitably leads to the termination of the working relationship

It only applies to a few cases, such as:

- when a person is hired to take care of a sick person, who subsequently dies;
- when a domestic employee works in a home inhabited by a single person who subsequently dies; or
- when a secretary works for a professional who practices independently and in a private capacity (eg, a doctor, lawyer, architect, etc) and dies.

In these cases, there is no obligation either to pay any indemnity to the employee.

Due to the employee's resignation

In order to be valid, it must be in writing and ratified or sealed by the Ministry of Labor.

Any resignation not duly ratified by the Ministry is plainly neither valid nor effective.

An employee has the obligation to notify the employer of their decision to resign with at least 15 days' notice.

Any employee who does not give the employer the above-described notice period must pay the employer the equivalent of a week's salary, which can be deducted directly from their seniority premium.

Through the employer's unilateral decision

Termination during the employee's test period is regulated as follows:

- The test period may not exceed three months.
- The clause establishing the test period must be clearly expressed in a written work contract.
- It only applies to those jobs or positions that require certain abilities or special skills.
- It is not valid to establish a test period when rehiring an employee for the same job they already had within the company.
- When dismissing an employee during the test period, it is not necessary to pay the employee an indemnity, only his or her acquired labour rights.
- Neither maternity leave, nor organised labour rights can be claimed during the test period.

Termination within the first two years of service is regulated as follows.

- It only applies to work relationships of an indefinite nature.
- The employer is under the obligation to pay an indemnity.
- The employer is under the obligation to give the employee 30 days' notice, or carry out the dismissal immediately and pay the amount corresponding to this period (one month's salary).
- The notice period shall count as the payment period following the notice of dismissal.

Dismissal based on a justified cause

Justified causes for dismissal are established in article 213 of the Labor Code and may be of a disciplinary nature, a non-attributable nature or a financial nature.

The main causes for dismissal of a disciplinary nature are as follows.

- carrying out actions that imply disloyal competition;
- providing a false doctor's certificate to justify absences;
- sleeping during work hours;
- stamping another employee's punch card;
- constant shortages of money; and
- making collections of payments and neither reporting nor delivering the money to the company.

Unjustified absences include:

- three consecutive or alternate days within one month;
- two Mondays within a month; and
- six Mondays within one year.

For the purposes of this cause of dismissal, Mondays shall be considered as the day immediately following a national holiday or day of mourning (eg, Ash Wednesday).

When should doctor certificates be presented to the company to justify absences?

This matter is resolved by internal work regulations.

However, in the absence of internal work regulations, the Labor Courts have determined that an employee returning to work has until the day following the day they receive the corresponding period's salary in order to justify their absence.

Unjustified non-compliance of orders

Not every non-compliance of orders justifies the employee's dismissal: a distinction must be made between pure disobedience, which would only justify a disciplinary sanction, and serious disobedience, which would justify the employee's dismissal.

In order to fully establish the grounds for dismissal, it is necessary for the following to take place:

- that the orders be given by the employer in a clear manner;
- that they relate to the work contracted;
- that there is no justification for any non-compliance with the order;
- that the non-compliance causes damages to the employer; or
- immoral or delinquent behaviour (including sexual harassment) by the employee.

It is not necessary for the criminal authorities to first determine the perpetration of the crime in order for the employer to apply this cause in the following situations:

- shows up for work under the effects of alcohol or illegal drugs on more than one occasion within the same year; and
- carrying out violent acts, threatening or insulting the employer or coworkers.

It is important that there is no provocation. Prior provocation weakens the grounds for dismissal in the following cases:

- causing material damages to the employer's equipment, tools, products, basic materials and facilities; and
- when an exempt employee carries out acts or omissions that lead to the loss of trust by the employer.

This cause only applies to the above exempt employees.

It is not about a subjective loss of trust: the loss of trust must be duly supported by objective acts or omissions. Also, the loss of trust must be tightly linked to other grounds for dismissal.

Law stated - 25 March 2022

Notice

Must notice of termination be given prior to dismissal? May an employer provide pay in lieu of notice?

The notice of termination must be given for employees that have less than two years of service at the company, and this prior notice should be one month before the date of termination.

It is permitted to pay one month of salary instead of giving prior notice.

Law stated - 25 March 2022

In which circumstances may an employer dismiss an employee without notice or payment in lieu of notice?

When there is a justified cause of termination.

Law stated - 25 March 2022

Severance pay

Is there any legislation establishing the right to severance pay upon termination of employment? How is severance pay calculated?

The indemnity payment does not constitute part of the acquired labour rights of every employee.

It must be paid only when the following occurs:

- A Labor Court declares the employee's dismissal as unjustified.
- A Labor Court declares the employee's resignation as justified.
- In the case of dismissals due to financial reasons, with the Ministry of Labor's prior authorisation. (In these cases even when the entity authorises the dismissals, as an exception the employer must pay the indemnity.)
- In the case of dismissals based on article 212 of the Labor Code (employees with less than two years in service).
- Terminations through mutual agreement, when the complete or the partial indemnity payment is negotiated.

Method of calculating the indemnity payment

The indemnity payment in Panama is calculated taking into consideration the employee's time of service, and his or her average salary earned during the last six months of work.

Article 225 of the Labor Code expressly establishes that the indemnity payment is calculated as follows:

Exclusively of service before 2 April 1972

Time of service	Payment
Less than one year	One week of salary per three months of service (one week minimum).
One to two years	One week of salary per two months of service.

Two to five years	Three months' salary.
Five to 10 years	Four months' salary.
10 to 15 years	Five months' salary.
15 to 20 years	Six months' salary.
More than 20 years	Seven months' salary.

These payments are not cumulative.

Service after 2 April 1972

These rates specifically apply to all persons who started their work relationship before 14 August 1995. The payments below are cumulative.

Time of service	Payment
Less than one year	One week of salary for every three months of service (one week minimum).
One to two years	One additional week of salary for every two months of work.
Two to 10 years of service	Three additional weeks of salary for each year of completed work.
More than 10 years of service	One additional week for each completed year of service.

Labour relationships starting after 14 August 1995

Time of service	Payment
Up to 10 years	3.4 weeks for each complete or partial year of service.
After 10 years	One additional week of salary for each complete or partial year of service.

Pursuant to what is established in article 149 of the Labor Code, the indemnity payment is based on the average salary earned by the employee during the last six months of service or during the last 30 days, whichever is more favourable to the employee.

An example using the third situation (work relationships that started after 14 August 1995): the employee earned an average salary of US\$1,500 per month, and worked for three years, six months and 15 days.

$\text{US\$1,500.00} / 4.333 \text{ (weeks in a month)} = \text{US\$346.18} \text{ (weekly salary)}$

Indemnity for the three years: $\text{US\$346.18} \times 3.4 \text{ weeks} \times \text{three years} = \text{US\$3,531.03}$

Indemnity for the six months: $(\text{US\$346.18} \times 3.4 \text{ weeks}) \text{ divided by } (12 \text{ months} \times \text{six months}) = \text{US\$588.51}$

Indemnity for 15 days: $(\text{US\$346.18} \times 3.4 \text{ weeks}) \text{ divided by } (365 \text{ days of the year} \times 15 \text{ days}) = \text{US\$48.37}$

Total indemnity = $\text{US\$3,531.03} + \text{US\$588.51} + \text{US\$48.37} = \text{US\$3,987.91}$

Finally, it is important to mention that in the case of early terminations of Contracts for Definite Periods or for Concluded Projects (temporary hiring) the indemnity will be equal to the Work Contract's remaining salaries, as established by article 227 of the Labor Code.

Procedure

Are there any procedural requirements for dismissing an employee?

No, unless the company is dismissing an employee who has special protection.

Law stated - 25 March 2022

Employee protections

In what circumstances are employees protected from dismissal?

Panamanian labour legislation protects employees from dismissal when those employees have special protection against the dismissal.

The most common special protections under Panamanian Law are the following.

Maternity privileges

Every female employee who is pregnant is protected by maternity privileges, which constitute legal protection against dismissal.

This legal protection against dismissal protects the employee during the whole pregnancy, her pre-birth and post-birth maternity leave and for up to one additional year after the employee returns to work after giving birth.

Special protection of employees with a disability

Establishes a jurisdiction or legal protection against dismissal that covers all workers with proven disabilities, as well as those employees who are parents or guardians of persons with disabilities.

Electoral protection

This is granted in favour of candidates for elected office and elected delegates.

This protection starts from the moment of the nomination until two months after the closing of the electoral process.

Special protection of negotiation, strike and arbitration

Article 441 of the Labor Code regulates this special protection, which may run in succession, covering the period of direct negotiation of a collective labour agreement (bargaining forum). The compulsory conciliation procedure prior to the strike and the time available to workers to declare it, during the strike or during the arbitration, the employees will have special protection against the dismissal.

Union immunity

This special protection shall be enjoyed by:

- members of unions being formed;
- board members of the employees' unions;
- federation and confederation of centrals;
- substitutes for directors of the unions;
- representatives of the union; and
- the term of this special protection will vary.

Special protection in favour of the employee who has reported inconsistencies in the payment of the company's social security

The employee who reports their employer for failure to register or for omissions or breaches of their employer's obligations to the Social Security Agency shall enjoy 18 months from the date on which the worker filed their complaint.

Special protection for employees who are suffering from chronic, involute or degenerative diseases that cause partial disability at work

The employees who suffer one of the diseases established by law have special protection against dismissal.

Law stated - 25 March 2022

Mass terminations and collective dismissals

Are there special rules for mass terminations or collective dismissals?

The Labor Code contemplates mass or collective dismissals, mainly for cases of termination of employment with cause for financial reasons.

Collective dismissals require the authorisation of the Ministry of Labor.

Law stated - 25 March 2022

Class and collective actions

Are class or collective actions allowed or may employees only assert labour and employment claims on an individual basis?

Employee unions are allowed to assert labour claims against employers.

Law stated - 25 March 2022

Mandatory retirement age

Does the law in your jurisdiction allow employers to impose a mandatory retirement age? If so, at what age and under what limitations?

Panamanian labour law does not permit the imposition of mandatory retirement on employees.

Law stated - 25 March 2022

DISPUTE RESOLUTION

Arbitration

May the parties agree to private arbitration of employment disputes?

They can agree to arbitration, but most of the disputes must be resolved in a Labor Court.

Law stated - 25 March 2022

Employee waiver of rights

May an employee agree to waive statutory and contractual rights to potential employment claims?

Acquired labour rights are may not be waived. In any case, employees can negotiate indemnities under certain circumstances.

Law stated - 25 March 2022

Limitation period

What are the limitation periods for bringing employment claims?

An employee has two months to sue the employer for unjustified dismissal, starting from the dismissal date.

Regarding the claim of salaries and other labour benefits, the time limit is one year starting from the date of termination of the labour relationship.

The claim of overtime expires five years after the date in which the right of payment arose, except if dealing with employees in a position of trust, in whose case the limitation term is three months only.

Law stated - 25 March 2022

UPDATE AND TRENDS

Key developments of the past year

Are there any emerging trends or hot topics in labour and employment regulation in your jurisdiction? Are there current proposals to change the legislation?

Not at this time.

Law stated - 25 March 2022

Jurisdictions

	Angola	FTL Advogados
	Australia	People + Culture Strategies
	Austria	Schindler Attorneys
	Belgium	Van Olmen & Wynant
	Brazil	Cescon, Barrieu, Flesch & Barreto Advogados
	Canada	KPMG Law
	China	Morgan, Lewis & Bockius LLP
	Colombia	Holland & Knight LLP
	Denmark	Norrbom Vinding
	Egypt	Eldib Advocates
	Finland	Kalliow Asianajotoimisto Oy
	France	Morgan, Lewis & Bockius LLP
	Germany	Morgan, Lewis & Bockius LLP
	Ghana	Globetrotters Legal Africa
	Greece	Rokas Law Firm
	Hong Kong	Morgan, Lewis & Bockius LLP
	Hungary	VJT & Partners Law Firm
	India	AZB & Partners
	Indonesia	SSEK Legal Consultants
	Ireland	Arthur Cox LLP
	Israel	Barnea Jaffa Lande
	Italy	Zambelli & Partners
	Japan	TMI Associates
	Kazakhstan	Morgan, Lewis & Bockius LLP
	Luxembourg	Castegnaro

	Malta	GVZH Advocates
	Mauritius	Orison Legal
	Mexico	Morgan, Lewis & Bockius LLP
	Monaco	CMS Pasquier Ciulla Marquet Pastor Svava & Gazo
	Netherlands	CLINT Littler
	Nigeria	Bloomfield Law
	Norway	Homble Olsby Littler
	Panama	Icaza González-Ruiz & Alemán
	Philippines	SyCip Salazar Hernandez & Gatmaitan
	Puerto Rico	Morgan, Lewis & Bockius LLP
	Romania	Muşat & Asociații
	Singapore	Morgan Lewis Stamford LLC
	Slovenia	Law firm Šafar & Partners
	Sweden	Advokatfirman Cederquist KB
	Switzerland	Wenger Plattner
	Taiwan	Brain Trust International Law Firm
	Thailand	Pisut & Partners
	Turkey	Bozoğlu Izgi Attorney Partnership
	United Arab Emirates	Morgan, Lewis & Bockius LLP
	United Kingdom	Morgan, Lewis & Bockius LLP
	USA	Morgan, Lewis & Bockius LLP