



Panama and the US tax man

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Those of us interested in South America have seen a complete shift in its fortunes during last year compared with Europe and the United States of America. Augusto De la Torre, the World Bank's chief economist for Latin America, remains optimistic and believes that the region's countries are in a better position than ever before to absorb external shocks; they are now much more diversified and many have reduced their trade dependence on Europe and the US, increasingly expanding their international markets, especially in Asia.

Brazil, like India, has a significant domestic market and the country's economy is expected to have grown by 7.5% in 2010. A more prosperous population (although wealth is not evenly spread) is enjoying easier access to credit and higher employment which, in turn, has increased consumption. Brazil now has more mobile phones than inhabitants and during its last summer it is estimated that 1.5 million Brazilians took an aeroplane flight for the first time. Some years ago it was usually flight capital, not passenger flights, that many commentators wrote about. Perhaps, however, two major concerns are how Dilma Rousseff, Brazil's new president, will perform and the increasing risk of the economy overheating (last September imports increased 43% year-on-year which was the biggest leap in any of the world's 30 biggest economies).

Even Mexico, dragged down by its dependence on the US, and a withering battle with drugs, is recovering positively; analysts talk of 5% economic growth for 2010, based on fiscal discipline, a broadening of the tax base, more manufactured exports plus a low interest rate with checks on inflation.

Alberto Ramos, the regional head economist at Goldman Sachs, the investment bank, expects the region to have a very good year; and even if external factors conspire against this projection, he still believes the worst result will be just a good year. Importantly, the World Bank's De la Torre points out that Latin America, being integrated into the international financial system, has, for the first time, become a creditor while at the same time it has received considerable foreign investment in search of better returns. An envious US and European Union can only reach for handkerchiefs.

There have also been tears shed by some Americans with investments in Panama since their government and Panama signed a Tax Information Exchange Agreement (TIEA) last November, as opposed to a Double Tax Agreement like those Panama has negotiated with other countries (13 so far). It allows for information to be requested in respect of both civil and criminal tax matters with a starting point of 30 November 2007. This agreement is undoubtedly a regional triumph for the Obama administration, after years of fruitless effort by the US to bring down Panama's wall of secrecy; it would seem to exemplify Longfellow's divine rule: "Though with patience he stands waiting, with exactness grinds he all".

Reaction seems to have been extreme: it is either Armageddon, bringing the demise of Panama as a finance centre, or delight that new opportunities will open up for the country. The only certainty is that an agreement will be ratified: when and what its final terms might be remain unknown at the time of writing. Finance Vice Minister, Frank De Lima insists that his government has the upper hand in administering the TIEA's terms. Further, Panama will control every tax enquiry which requires specific details, such as the particular bank accounts of the taxpayer under investigation. He says that no IRS fishing expeditions with lists of names will be allowed.

Not all Panamanian legislators had advance notice of the agreement's specific terms and some of them could still prevent its smooth passage through the legislature. The US also appreciates that Panama may first have to introduce supplementary legislation in order to implement the agreement. Meanwhile the internet traffic – especially from bloggers – has been

as thick as the sort found last Christmas on Calle Cincuenta and Via España, the two main streets in Panama's capital. The late satirist and author, H. H. Munro, who believed that a little inaccuracy sometimes saves tons of explanation, would seem to have support from those bloggers and commentators with a penchant for alarmism.

Understandably, the move has come as a surprise after Vice Minister, Frank De Lima told Bloomberg News in March, 2009, that (then) president-elect Ricardo Martinelli was adamant in his refusal to give in to pressure from the US to change the country's banking secrecy laws. I wrote in this vein in my February, 2010, column (The Spirit of Palmerston, Issue 203) but I also wrote in that same column that countries will usually act in their own best interests. Clearly, the Panamanian government sees its best interests served by co-operating with the US tax authorities, and signing the agreement could be Panama's best chance of having the US Congress ratify the free-trade deal which both countries have previously signed; could it still be possible that Panama's ratification of the TIEA will be conditional upon that? Perhaps Wikileaks knows.

Panama was always committed to acceding to the transparency requirements laid down by the Organisation for Economic Co-operation and Development (OECD) – provided that all other affected jurisdictions did the same. In my July, 2009, column (Politics and Privacy in Panama, Issue 198) I mentioned that the run-in between Switzerland's UBS bank and the US Internal Revenue Service had forced the issue to the front of international tax scandals, giving more traction to the possibility of an all-out assault on recalcitrant jurisdictions – especially when the US and Europe are desperate for funds (tax receipts across the industrialised world have apparently fallen to their lowest level since the early 1990s). Today the pace of those moving to the white list from the grey one has increased and the OECD recently said that 80 countries have "substantially implemented the internationally agreed tax standard", with nine still non-compliant but committed to it and only three rebels remaining, namely, Guatemala, Nauru and Niue.

Panama is one of the few countries that runs a trade deficit with the US. American companies shipped USD4.3 billion in goods and agricultural products in 2009 to Panama while only importing USD302

million in return; the US actually exports more to China in three weeks than it does to Panama in a year. US manufacturers, for sure, see potential because of the expansion of the country's canal so a trade agreement would boost exports to Panama at a time when they are sorely needed in the US. Panama's president has pledged to spend up to USD20 billion over the next three years to build ports and expand airports.

But if the TIEA with the US is a precursor of things to come, it must be borne in mind that Panama is not just looking north to expand its economy. If Panama turns white (like some Americans did at the news of a TIEA) on the OECD list, it is likely that it will also be removed from regional blacklists (those of Mexico and Brazil, for example) which opens up more business opportunities.

We already know that the UK sees opportunity in Panama (The Spirit of Palmerston, Issue 203, February 2010) and last year's guest speaker at Britannica Day, UK Minister of State, Jeremy Browne, told me in conversation that his coalition government recognised that Latin America (and especially Panama) has been a missed opportunity. Panama shouldn't miss its opportunity either to diversify its interests. Like other Latin American countries referred to already, it should diversify and develop stronger ties within the region and particularly in Asia.

In my October, 2003, column (South America's Gateway, Issue 140) I said that the country's offshore industry had a bright future but that many factors remained unknown making it hard to guess where either Panama or any other offshore finance centre is headed, say, in the next ten years. For tax evaders it is certainly now more perilous in Panama, with the stakes suddenly raised for all but the foolhardy.

One thing, however, is certain: the country's future remains bright. Latinobarómetro, based in Chile, revealed in recent surveys that Panamanians, along with Brazilians, were the most bullish in the region about their countries' overall progress (over 60%) and after Uruguay and Costa Rica, Panamanians and Chileans were the region's most satisfied citizens concerning the way their countries' democracy functioned.

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