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# Confidential

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## The easiest place in the world to establish second residency



Recently, we've discussed several different economic citizenship programs around the world. And while these programs are not for everyone due to their higher costs, they have all surfaced at the same time, and I would be derelict in my duties to not to inform you about these options.

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Bottom line—it's all good news. The supply of potential second citizenships is increasing. And I'm certain it's going to continue to increase, even despite the occasional grumblings and misgivings.

Malta is an interesting example; after passing their new economic citizenship program, the European parliament is scheduled to have a 'debate' in January to discuss the program. It clearly makes a lot of politicians uncomfortable.

I shared the stage with a minister from the Maltese government at a citizenship conference in Miami a few weeks ago. It was nice to be around someone who actually 'gets it'. We discussed how economic citizenship can be a huge benefit to the country. And in times when so many nations are broke, it's quickly becoming a necessity.

Rather than treat people like milk cows, nations are going to have to compete with one another for the most productive citizens and residents. That includes rolling out attractive economic citizenship programs like Malta has done.

As one would expect, as the supply of these citizenship programs increases, the prices will fall... so they'll become more affordable to the average guy.

But that's down the road.

What we're talking about today is something that just about everyone can do and afford today. We've discussed this several times before over the last year, but on the heels of so many alerts about economic citizenship opportunities, this one bears repeating.

Since last year, Panama has become the easiest and cheapest option to establish second residency. And in a thriving economy to boot.

The new residency visa category is called Permanent Residents Visa for Citizens of Friendly Nations. 45 countries are currently on the list of eligible nationalities for this program, from Australia to the United States.

This immigration program is unique in the world. It was established by presidential decree, essentially because the Panamanian economy is growing so quickly and the labor pool began to dry up.

There are simply not enough people in Panama for the number of jobs that the economy is creating. And they are in need of attracting foreign talent.

This program definitely won't be around forever. As soon as the economy cools off, the government will most likely do away with this incredible immigration opportunity.

It's also possible that the next President of Panama (the current President Martinelli leaves office next summer) will close the window for new enrollment.

That's a big reason why I'm sending this out now—if you're looking for a residency option, it's important to take advantage of this window of opportunity now if you're interested.

We first wrote about Panama's new residency program in August 2012 when the program was still completely fresh. Now, the track record and procedures are already fairly established, and they do differ slightly from how they were set up at the beginning.

The immigration authorities initially passed regulations indicating how this new residency process was going to be handled. As always, though, the interpretation of the regulations and their implementation is a bit different than what's on paper.

Plus, there's so many people talking about this program now on the Internet, it's created a tremendous amount of misinformation. So let's review the facts about how to obtain residency under this immigration program:

## **i. Organize a Panamanian corporation\***

The first step is to satisfy the requirement to demonstrate economic activity in Panama by organizing a Panamanian Corporation.

This step doesn't necessarily mean that you have to do any business in Panama. But this is one of the easiest ways to comply with the requirement.

A Panamanian corporation can be set up in just a few days. Sometimes it can be done instantly if you buy a 'shelf corporation' that's already been registered. The law firm we're recommending will take care of this for you. And you do not need to be in Panama to do this.

\* US Taxpayers, please see the tax addendum at the end of this article.

## 2. Prepare documents for submission

For this procedure you will need to procure a few documents:

- 1) A police record, not older than six months, from the country you're living in now is required for all adult applicants. In the US, this means an FBI background check.

You can read about the procedures to do that here:

<http://www.fbi.gov/about-us/cjis/criminal-history-summary-checks>

- 2) Marriage certificate, if applicable.
- 3) Birth certificate for any children or parents to be included as dependents.

All three types of documents need to be authenticated by an Apostille, or by the Consulate of Panama that has jurisdiction over the area where they were issued.

So for example, if you were born and married in New York state, then you can send your birth and marriage certificates to the Panamanian consulate in New York City for authentication.

- 4) Photocopies of passport and of another identification document (driver's license) are also required.
- 5) As a final matter, three passport-sized photographs are also required.



### 3. Plan your initial visit to Panama

My recommendation is that you plan on being in Panama for ten days in order to complete the residency application process. It's actually quite a nice country, as you'll see—a very lovely place to visit.

Fly in on a Sunday afternoon, and fly out the following Wednesday. That should do it. Just make sure there are no major holidays in the interim.

Avoid January 9<sup>th</sup> (one of the most important Panamanian holidays), Carnival (the week of Fat Tuesday and Ash Wednesday), Easter, and May 1<sup>st</sup>. And forget about November or December.

The government has also been known to declare surprise holidays. A few years back, Panamanian long jumper Irving Saladino won the gold medal at the Beijing Olympics. And the government immediately declared a national holiday.

Panama City right now has a massive hotel glut, and room rates have been falling. Popular favorites with expats include the Veneto, Marriott, Radisson Decapolis, and the Bristol.

### 4. Travel to Panama

Once on the ground in Panama, you'll need to get a bank account set up for your new corporation—a process which takes approximately five business days.

The law firm will give you the forms required to open a corporate bank account, as well as the contact information for which bank you should speak to (CrediCorp, Multibank, etc.)

To demonstrate economic solvency required for the residency visa **you need to deposit at least \$10,000 in the account, and an additional \$2,000 for each dependent.**

The nice thing about this is that you can withdraw the money once your residency is approved.

Once the bank account has been opened, the law firm will submit all the documents and application for you with the local immigration authorities.

While Panamanian banking sector is very robust with high levels of liquidity and solvency, it is not immune to external factors such as money-laundering scandals. And even temporary blacklisting of any Panamanian bank by the U.S. will lead to bank's trashed reputation and closure (as we have seen it happen twice within the last year alone).

Panamanian bankruptcy law protects smaller depositors (deposits under \$10,000 are compensated first), so theoretically you should be protected. However, if the bank in trouble is not being liquidated, but rather sold to a different bank, that bankruptcy law does would not apply anymore.

That's why it is important to pick your Panamanian bank wisely when you apply for residency. But here is the problem: Most respectable Panamanian banks are not willing to open accounts to non-residents who want to deposit just a few thousand dollars.

So, the choice of banks is severely limited to the smaller ones (which may not have a stellar reputation.)

Fortunately, you do NOT have to keep your bank account open AFTER you obtain your residency in Panama (which takes approximately 4-6 months). You may also dissolve your Panamanian company at this time.

Here are your options:

- a) Do nothing after opening your original bank account in a smaller Panamanian bank. Just beware that in the unlikely (but possible) worst case scenario, you may lose at least a portion of your deposit.
- b) Start with the smaller Panamanian bank, and after you obtain your legal residency, open an account in a bigger and reputable bank (Scotiabank, Multibank...), or one of the government banks (National Bank of Panama, Caja de Ahorros). Then, transfer your money there. Panamanian residents should not have problems opening accounts with small initial deposits at larger banks.
- c) Start with a larger initial deposit right away. If you are willing to deposit more than US\$20,000 from the beginning, you may choose to work with Multibank, for example. Multibank has partnered with a prominent German bank and is not likely to engage in any questionable activity. [You can learn more about Multibank in this alert.](#)

## 5. Issue of the Permanent Resident Visa

The National Immigration Service will take between 6 to 8 months to issue you the Permanent Resident Visa. **Once the Permanent Resident Visa is issued, you will be required to visit Panama at least once a year for a period of 24 hours in order to maintain your residency.**

After 5 years of legal residency in Panama you can become eligible to apply for naturalization and acquire a Panamanian passport.

This is a great passport to have. It includes visa-free travel to Europe, and all of Latin America. Plus, I would candidly expect that in the not too distant future, Panama will join the ranks of nations that are part of the US visa waiver program.

So this is definitely a great passport to work towards acquiring. And for now, the cost is minimal.

Demonstrated proficiency in Spanish and the knowledge of Panamanian history is officially required to be naturalized.

If you are married to a Panamanian citizen, or have Panamanian children, the residency requirement needed for naturalization is reduced to 3 years.

Since this program is only 18 months old, no one has of course been eligible to apply for naturalization under the program. In general, requests for naturalization are submitted to the President of Panama, who has final approval.

Bottom line, this program is a unique, cheap and flexible way to obtain permanent residency in a booming country that is open to practically everyone.

I don't expect this option will be around for a long time. My contacts on the ground are giving it a tentative timeline of one or two more years. Given that it will take six months for the permanent residency to be approved, I would recommend that you get started sooner rather than later.



## Contact Information

While it's possible to go through this process alone, I strongly encourage you to use professional help to avoid any hiccups and to expedite the process.

Julio Quijano is an old friend and partner at Quijano & Associates, one of the most prominent law firms in Panama.

His firm has already taken 250+ clients through the process successfully. And while he is not the cheapest guy in town, I consider him among the most trustworthy and candid. Plus, you will also find him very philosophically aligned with our core ethos.

They can take care of everything for you while you're in Panama, including your hotel reservations. They have established relationships with the local banks, so getting an account opened is more straightforward than usual. The same applies to forming a Panamanian corporation, which can be a hassle if you don't know what you're doing.

Once that is done they will accompany you to the offices of the National Immigration Services to file an application for provisional residency, have the required photographs taken, and apply for a multiple entry visa. They will deliver your passport with the Provisional Resident Visa stamped in it within 48 hours.

You can contact Julio at [quijano@quijano.com](mailto:quijano@quijano.com).

## Special Addendum for US taxpayers

When we first wrote about this Panamanian residency option last year, the rules were still very opaque. Now that they're much more clear, the tax significance for US taxpayers has become obvious and bears shedding some additional light.

I have written many times before that establishing a foreign corporation can be one of the most tax advantageous and personally beneficial moves you could ever make. But when done improperly, it can be one of the most destructive.

This isn't something to fear, merely something to be aware of.

Now... before I begin, I am obliged to caveat that the following should not be taken as tax advice. I am not a CPA or tax attorney. What I'm aiming to do is give you an overview of the tax situation based on my extensive personal experience and interactions with tax professionals.

Let's review the case with Panama.

As part of this process, it's important to register a Panamanian company to demonstrate economic solvency. If you as a US taxpayer own 100% of a Panamanian company, this would be considered a controlled foreign corporation, or CFC.

A lot of people talk about this concept as if a CFC is like the Black Plague. It's not really. Being involved in a CFC will oblige you to certain reporting requirements. So let's review:

**1) Form 926: Once**

Initially when you create the company and fund the corporation's bank account in Panama for your residency, this constitutes a 'transfer of property' from a US person to a foreign corporation. And this needs to be reported on Form 926 along with your normal 1040.

So if you transfer funds to a Panamanian company on January 2, 2014, you would file form 926 by April 15, 2015.

This form should be filed only once when you transfer funds to the corporation. If you transfer funds again later on from your individual account to the company, you would need to file form 926 again.

**2) Form 5471: Annually**

This is the annual information return with respect to foreign corporations. Since your Panamanian company will not have any actual operations and just be holding cash, the Form will not be terribly complex. But it is an annual requirement that needs to be filed with your normal 1040 each year.

**3) FBAR: Annually**

This is the report you need to file each year to the Treasury Department's Financial Crimes Enforcement Network that you have a foreign bank account. Since the minimum you need to deposit in Panama is \$10,000, you will meet the basic reporting threshold.

The FBAR is now electronic; it is no longer the paper form TDF 90-22.1. However, it must still be filed by June 30<sup>th</sup> following the calendar year in which you had the account.

So—if you opened the Panamanian bank account on January 2, 2014, you would need to file the FBAR electronically by June 30, 2015.

Please refer to our October alert on the electronic FBAR for more information; we will also republish this, as it gets closer to the filing deadline next June.

**4) Form 8938: Possibly**

This is the new FATCA form. You may or may not need to file this FATCA form, as there are a number of qualifying thresholds that we have covered before.

If you are a single taxpayer living in the United States, for example, you must file form 8938 if the aggregate value of your foreign financial accounts exceeds \$50,000 on the last day of the year, or \$100,000 at any time during the year.

If you are married filing a joint tax return and living in the United States, the threshold is \$100,000 on the last day of the year, or \$200,000 at any time during the year.

If you are single and living outside of the US, it's \$200,000 on the last day of the year or \$400,000 at any time during the year.

And if you are married filing a joint tax return and living outside of the United States, the threshold is \$400,000 on the last day of the year, and \$600,000 at any time during the year.

If the total value of your foreign financial accounts is below this threshold, it does not need to be reported on form 8938.

Furthermore, as you will already be filing form 5471, the duplicative reporting exceptions eliminate the need to report the Panamanian corporation on form 8938.

**Income tax**

More than likely, your Panamanian corporation will not generate any actual income because it will not have any business operations. If anything, it may generate a trivial amount of interest income simply from having money in the bank.

Under the CFC rules, however, interest and other passive income generated by a Controlled Foreign Corporation is considered “Subpart F income”, and this triggers an immediate tax liability.

So make sure that you report any interest income, no matter how trivial, you may receive from the Panamanian bank account.