Prospects of a German-Panamanian Double Tax Agreement

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A Member's Perspective

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Content

I. Introduction

During the rule of absolutist powers in Europe, mercantilism served as a highly protectionist economic system to ensure value adding would only take place within the country. While only raw materials would be imported, exclusively value added manufactured goods goods left the economy and generated state revenue in form of tariffs and taxes plus the inflow of currency (gold). Economy was considered a zero-sum game in which only a few states could gain. Since the 18th century circumstances have changed and production and trade were internationalized, particularly since the end of World War II. As goods, people and capital flow somewhat freely among judicial and legislative boundaries, the rules in the realm of economy have changed. Increasing economic and political interdependence among the main economic blocks and emerging economies raised concerns over the rightful and legitimate ownership of taxes. In particular, since the early post war period 'Double Tax Agreements' or 'Double Taxation Treaties' have emerged as a means to settle disputes about the ownership of taxes on income and capital. Having proved to be an effective tool for governments to settle inconsistent international taxation law through bilateral agreements, private businesses often fail to grasp the whole picture. It is commonly assumed that Double Tax Agreements serve to aid domestic business abroad, whereas it rather aims at resolving tax ownership disputes bilaterally. Therefore, this paper seeks to shed light on the nature of double tax agreements and their implications for businesses of the contracting states. This works' research question therefore is: 'What are the Prospects of a German-Panamanian Double Tax Agreement for Members of the Chamber?'

It must be said that international tax law is a highly complex field, thus this paper aims at providing some basic insight into the matter and should not be regarded as foundation for business policy. It will be focused on certain issues connected to Double Tax Agreements, being most relevant for businesses while only briefly touching upon natural persons. The first section of this paper serves to briefly introduce the Double Tax Agreements, elaborating on their rationale and purposes. Thereafter, contents and composition of Double Tax Agreements will be depicted before turning to the actual network of German and Panamanian Double Tax Agreements in operation and subsequent analysis. To ensure reliability of data acquired during the research and used for analysis, the author relied on academic and consultancy literature. Policy documents and treaty templates used have been retrieved from official governmental bodies and OECD databases to ensure significance and legitimacy of the analysis and its results.

II. What are 'Double Tax Agreements'?

A variety of terms circulate in international financial and taxation law literature when referring to double taxation agreements. May it be Double Taxation Convention, Treaty, Contract or Agreement – all terms refer to the same instrument with the objective of avoiding double taxation of individuals. Throughout the course of this paper, they will be referred to as Double Tax Agreements (DTAs).

DTAs are mainly bilateral treaties between two contracting states, nonetheless there are some minor multilateral treaties in force. Focusing on the nature of bilateral treaties, it is important to stress the uniqueness of each treaty signed. Definitions of principles, particularly interpretation of residence and source principle vary to a great extend in national legislations. Therefore, DTAs are negotiated in a case-to-case manner. Although the OECD and UN provide model tax conventions and negotiated treaty structures often appear similar, the contents of treaties are by no means equal. Subsequently, this section introduces the DTA instrument and seeks to clarify terms used originating in national and international taxation law.

Firstly, when investigating DTAs it is helpful to envision a situation in which double taxation occurs to grasp the issues importance for international trade. Imagine a scenario in which residents of two countries interact through trade or financial transactions, giving rise to international trade or cross border transactions.

> A typical scenario is when A, a person based in Country A, transacts business with a person resident in the other country, Country B. The profits or gains, thus accruing to A is, say, $100. This $100 is likely to be subject to tax in Country A (because he is resident or based in Country A), as well as in Country B (because the gains are derived or sourced from Country B). Thus, the same income item of $100 is subject to territorial double taxation, once in Country A, then again in Country B. Assuming Country A has a tax rate of 30%, while Country B taxes the income at 25%, A will potentially suffer a global tax of $55 [(30%of $100) + (25% of$100)], leaving him with a measly after-tax income of only $44.

A situation as depicted above obviously discourages international trade. Is poses an obstacle to states committed to the international free trade paradigm which considers international trade relations as beneficial for all participating parties and therefore opposes fiscal trade barriers. The situation sketched above implies that internal trade will be preferred to international trade, due to its higher revenue compared to cross-border trade. This leads to the need for countries to bilaterally and mutually agree to specific

terms and rules of how income or profits from international trade or cross-border transactions are to be treated by the two countries' fiscal authorities.

Double taxation mostly arises through a mixed application of residence and source taxing by two states. Under the residence principle, the state in which the taxable individual resides is entitled to demand the individual's taxes on income and capital. Simultaneously, another state may request the same individual to pay for taxes under the source principle, imposing taxation where an income or gain arises territorially, thereby causing double taxation. Therefore, one purpose of a DTA is sorting out the allocation of taxing rights between to states, most commonly by favoring the residence over the source approach. According to the residence approach, tax is to be levied by the state of residence of the individual, natural or juristic. In this regard, the definition of residence is crucial. Since an individual may reside in several countries or change its place of residence frequently, DTAs include definitions and clarifications on such matters.

For natural persons, it is looked upon whether the taxpayer has a sufficiently strong connection to a jurisdiction as to be a regarded a fiscal resident. This assessment may include a variety of factors, such as the location of the individual's home, physical presence and natural and economic connections to the jurisdiction. Less commonly, the sovereigns may evaluate on basis of a threshold looking at how many days an individual is present in the jurisdiction. Residence of juristic persons or companies may be looked upon by where it has been incorporated, more commonly though, where its central management and control bodies are located. In other words, the location of the central and effective management authority is decisive. As mentioned earlier, lawmakers favor the residence principle over the source principle whereas there are two forms for double tax relief regularly applied under DTAs. Either and most commonly the residence country may have to give a credit for the source country against the source country income tax on the income, referred to as foreign tax credit (FTC). Moreover, the residence country may be obliged by the agreement to relinquish the income tax. By applying the FTC method, the residence state will reduce its total tax on an individual by the amount of the source country's income tax. For instance, residence country X requests 35% income tax from an individual, however reduces it by the source country Z income tax level of 15%. In the end, double taxation has been abolished while the residence countries' tax level 35% is being maintained as the individuals total tax. Nevertheless, DTAs may grant some taxing rights to the source country. Most commonly, this occurs when a resident of the other contracting state maintains a permanent establishment in the source country or the respective Article allows for it. As for others, this term is subject to the definitions and clarifications of a DTA, due to its inconsistent interpretation in national legislations.

In sum, double tax agreements are designed to achieve relief from double taxation arising from contradicting tax laws and non-cooperation in the area. As depicted above, double tax agreements are designed to lessen the burden of and help to resolve international taxation conflicts. They serve as problem solvers, foremost directed towards attaining consensus and clarification on terms and principles used by the contracting parties. On the other hand, they functions as a tool to counter fiscal evasion. Instead of risking the taxpayers try to avoid overall high tax regime by evading to other jurisdictions granting more favorable fiscal conditions. This is achieved through sorting out allocation of taxing rights among the contracting partners, granting both at least a piece of the cake.

III. What is in a 'Double Tax Agreement'?

The lion share of double tax agreements concluded base of the United Nations or OECD model tax convention on income and on capital. Although appearing similar in most points, the UN model gives more prominence to source country taxation, therewith reinforcing its role as advocate of developing nations. Double Tax Agreements signed between Germany, Panama and other states respectively, generally base on the OECD model tax convention. Thus, this section serves as an introduction of the general contents of DTAs, focusing on the OECD model convention.

OECD model based DTAs generally consist of seven chapters, namely (I) the scope of the convention, (II) definitions, (III) taxation of income,(IV) taxation of capital, (V) methods for elimination of double taxation, (VI) special provisions and (VII) final provisions. Chapter I regards the scope of the convention, specifying persons and elements of income and capital covered. Furthermore, it mentions the contracting parties and ensures applicability of the convention in the event of change of national legislation of one or both parties concerned. As indicated earlier, definitions in national legislation may differ significantly. Therefore, chapter II is dedicated to define and clarify terms used in the convention. In particular, the notions 'resident' and 'permanent establishment' receive major attention. Article 4 states that an individual is deemed resident if it is liable to taxation due to its location of domicile, residence, place of management or other criterion of similar nature. Where Article 4 fails to determine resident status of an individual, a chain of tests is being applied. It is looked upon the individuals center of vital interest, determined by investigating in which state it maintains the closest personal and economic relations. In case of failure of determination, the individual is deemed resident of the state where it has an habitual abode or subsequently by nationality. As a last resort, the contracting states have to reach mutual agreement on the issue. According to the OECD model convention, a permanent establishment refers to a fixed place of business through which the business of an enterprise is wholly or partly carried on. Fixed in this regard refers to a link between the place of business and a specific geographic point. A place of business refers to some facilities used by an enterprise for carrying out its business, whereas premises must be at the disposal of the enterprise and the business of the enterprise must be carried on wholly or partly at the fixed place. The convention states that 'permanent establishments' particularly refer to a place of management, a branch, an office, a factory, a workshop and sites for the extraction of natural resources. However, a site must be in operation for at least 12 months for qualifying as a permanent establishment.

Chapter III deals with the more technical issue of sketching the taxation of income. Although overlapping, the chapter's articles can be grouped in three categories, each

regarding the taxation of income of businesses, income through employment or salaries and other income. While Article 6 refers to the taxation of income of immovable property, article 7 regards business benefits including a passage that in the event of a permanent establishment the source state may be entitled to taxation. Article 8 regards shipping inland waterways transport and air transport. One has to note that in many cases independent conventions are concluded regarding maritime and air transportation, serving as a door opener before all-embracing conventions are signed between two contracting. Article 9 defines the taxation of income of associated businesses, before article 10 and 11 give insight in taxation of income of dividends and interest. These may be taxed by the source state however, the extend largely depends on the exact situation and ownership structure. Following, articles 12 to 21 deal with the taxation of income of capital gains from alienation of property, income from employment, directors fees, entertainers & sportspersons, pensions, government services, students and other income. Aforementioned Article 6 defines property and serves as a basis for taxation of capital in chapter IV. Chapter V provides insight in the earlier mentioned methods of elimination of double taxation, commonly achieved through tax exemption or the granting of foreign tax credits.

Chapter VI contains special provisions, ensuring a non-discrimination approach, a mutual agreement procedure, exchange of information and assistance in the collection of taxes. Moreover, it contains an exception clause for members of diplomatic missions and consular posts as well as a clause on the unlikely event of territorial extensions of a contracting party. Lastly, chapter VII contains final provisions defining the terms of entry into force and termination of the agreement.

IV. How to Distribute Taxation Rights - Domestic Taxation vs. International Taxation

The German and Panamanian domestic taxation regimes differ greatly due to historical and overall socio-economic circumstances. Germany is considered a high tax country, due to heavy public expenditure and extensive social welfare spending. Income underlies progressive taxation ranging from 14% to 45%, beginning at a level of income of 8,354 Euro (2015). Business are subject to a federal corporate tax of 15,825% and a local business tax levied by the municipalities. Capital is taxed in a flatrate approach of 25%. Contrarily, Panama is considered a low to mid tax country. Incomes above 11,000$ are taxed at a rate of 15%, incomes above 50,000$ at a rate of 25%, while capital is not subjected to taxation.

Germany maintains an extensive worldwide network of DTAs with more than 90 states, generally relying on the OECD model tax convention. The focus in operating agreements lies on Germany's main export and trading partners covering nearly all states in Europe, North America and Asia. In Africa, agreements have been signed with the continents major economies such as South Africa, Algeria and Egypt. The same image can be observed in Latin America, where Germany maintains few DTAs, namely with Costa Rica, Mexico, Venezuela, Ecuador, Bolivia and Argentina. Whereas Germany's efforts to build a network of DTAs date back until the 1960's, Panama just began to negotiate agreements in the 2000's, signing the first treaties in early 2010 with Mexico. Until early 2016 the Republic of Panama signed 25 tax related bilateral agreements, whereas 14 are extensive Double Tax Agreements and 9 focus solely on the exchange of fiscal information. The scope of countries lies on OECD member states, most likely to show efforts in the regulation of financial and fiscal systems to escape the OECD and FATF grey-list labeling Panama as a tax haven and major destination for money laundry.

Having elaborated on the nature, purposes and contents of DTAs, the subsequent analysis aims at investigating existing DTAs between Panama and other nations. The aim is to frame a forecast for German-Panamanian agreement. As pointed out earlier, the focus of this work is the prospects of a DTA between Panama and Germany for businesses. Therefore, the focus of analysis lies on the sections of distribution of taxes on interest, dividends and capital gains. Moreover, the implications for private individuals will be briefly touched upon. The main sources for analysis are the official policy documents, whereas the focus lies on the eight accessible agreements with European OECD countries. These policy documents were chosen due to their scope, exceeding mere agreements on financial information exchange or maritime and air transportation. Eventually, results of

negotiations with Germany as a major European OECD country can be expected to lie in the range of terms and conditions agreed upon in foregone agreements. The author extensively investigated and compared the agreements, looking at similarities and differences in form and content of the Articles. Taken into consideration are the agreements between Panama and Spain, France, the Netherlands, Portugal, Italy, the United Kingdom, Luxemburg and Ireland respectively. Subsequently, this section investigates the differences and similarities of Chapter I & II of the agreements concerned, laying the foundation for the distribution of taxing rights.

The first Chapters' Article 2 regards the taxes covered through the agreement in respect of elimination of double taxation. Generally, OECD states concerned include their common taxes on income or salaries, cooperation tax as well as capital or capital gain tax. Furthermore, local taxes may be included if levied in the respective state. Panama on the other hand only subjects its income tax (impuesto sobre la renta) to the agreement. It´s equivalent to the OECD countries' cooperation tax (aviso de operacion) is solely included in the agreements made with Luxemburg and Spain. Therewith it differs from the OECD model convention seeking to include all equivalent taxes of the contracting partner concerned.

Chapter III of the agreements regards the taxation of income, whereas income from immovable property is the first type of income regarded by Article 6. It relates to the exploitation of natural resources, such as mining sites. Income derived from such operations may be subject to taxation in the country those sites are situated in, treating the individual conducting exploitation as a resident. The wording and content of all DTAs concerned proved equal and strictly following the OECD model scheme, giving taxation rights to both contracting states. The same applies for subsequent Article 7 regarding the taxation of business profits. Wording and content are largely equal and sticking to the OECD model. Taxation shall be based on the residence principle, thus being levied in the country in which the affected companies' effective place of management is situated. However, if the company maintains a permanent establishment in the other state, profits arising in the other country shall be taxed in that other state, as far as being attributable to the permanent establishment being viewed as a separate business. Article 9 serves as a reinforcement of this matter, stating that such dealings shall be treated the same way as similar transactions taking place between independent enterprises, proving equal in all agreements of concern. Article 8 concerns international transportation and DTAs investigated largely stick to the OECD model convention. They ensure exclusive application of the residence principle in taxation, except in the case of presence of permanent establishments. However, the agreements signed between Panama and Luxemburg, Portugal, Spain and Italy exclude any taxes, tolls, duties or similar payments in

relation to the use of the Panama Canal. The Netherlands are also excluded from the offset of any cost arising to the use of the Panama Canal, whereas the other conditions of taxation with regard to international transport underlie a treaty signed between Panama and the Netherlands signed in 1997. It is the only contracting state with a differing Article on international transportation.

With regard to Article 10 on the taxation of dividends, wording and level of taxation agreed upon may differ significantly It is stressed that dividends refer to income from shares, mining shares, founders' shares or other rights. Income arising through a company being a resident of one contracting state handing out dividends to an individual in the other contracting state may be taxed in both states. However, if the beneficiary receiving the payment is the resident of the other contracting state, the level of taxation by the source state is determined by the companies' ownership structure. It depends on the amount of capital of the company paying the dividend hold by the beneficial owner of the payment being a resident of the other state. In the cases of Spain, France, Italy, Luxemburg and Ireland the tax shall not exceed 5% of the gross amount of the dividend paid if a threshold of 10%-25% of the companies' capital is hold by the beneficiary. The agreement with Portugal requires a 10% threshold and subjects dividends to a maximum taxation of 10%. In the case of the Netherlands and United Kingdom, no taxes are levied if 15% of the capital or 30% of stocks are hold by the beneficiary. If those thresholds are not met, the sum levied varies between 10% and 15%, while the agreement with Ireland does not require a threshold but allows for a maximum of 5% taxation. However, if the beneficiary maintains a permanent establishment in the state where the dividends originate and the payment is effectively connected with that permanent establishment, taxation shall be pursued according to Article 7 while allowing for an additional tax not exceeding 5% of the gross amount by the source state.

Following Article 11 concerns the taxation of interest, whereas interest refers to income from debt-claims of every kind, whether or not secured by mortage and whether or not carrying a right to participate in the debtor's profits, and in particular income from government securities and income from bonds or debentures, including premiums or prizes attaching to such securities, bonds or debentures. Penalty charges shall not be subject to this Article. As for dividends, interest may be taxed by both states, the residence and source state. However, if the beneficiary of an interest payment is a residence of the other state it may be taxed by the state where the interest is arising to a certain maximum percentage. For the agreements with Spain, France, the Netherlands, the United Kingdom, Luxemburg and Ireland applies a limit of 5% of the gross interest gain, whereas in the case of Portugal it lies at 10%. The Italian agreement concludes a limit of 5% if the beneficiary is a bank and 10% in all other cases. As for dividends applies that if

the beneficiary as a resident of the other state maintains a permanent establishment in the state where the interest arises and the interest is borne by such permanent establishment, taxation shall be pursued according to Article 7 on business profits. Article 12 regards royalties, whereas royalties refer to payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, any patent or trademark. As for the forgone cases of dividends and interest, this type of income may be taxed by both states, the residence and source state. However, if the beneficiary a an interest payment is a residence of the other state it may be taxed by the state where the royalty payment is arising to a certain maximum percentage. For Italy and Portugal the tax charged shall not exceed 10% of the gross amount of a royalty payment, in all other cases the tax is limited to 5%. Despite the difference in the level of taxation, the article reflects the model set by the OECD.

Subsequent Article 13 deals with the taxation of capital gains, stating that capital gains from the alienation of immovable property as referred to in Article 6, movable property forming part of a permanent establishment and shares or comparable interest deriving more the 50% of their value from immovable property may be taxed by both contracting states. Capital gains from the alienation of ships or airplanes used in international transport shall solely be taxed by the resident state of a company. All other forms of capital gains underlie taxation only in the contracting state of which the alienator is a resident. Not all contracts investigated include an article on the taxation of services. In fact, only agreements between Panama and Luxemburg, Italy, Portugal and Spain include a passage on the matter. In such cases again, both states may impose taxes, however the tax so charged shall not exceed a certain percentage of the gross amount of the payment when the beneficial owner of such payments is a resident of the other Contracting State. In the cases concerned the amount varies between 5% and 10% of the gross amount of gain.

The second section of Chapter III predominantly treats the taxation of income from employment. The subsequent Articles regulate taxation of salaries, directors' fees, pensions, government service, and students, while being included and equal in wording and content in all agreements regarded by this work. With respect to income from employment or salaries, taxation is to be imposed only by the contacting state of which the individual receiving the salary is a resident. If the salary, however, arises through a government service paid or funded for by a contracting state it is only taxable in the other contracting state if the individual is both, a resident and national of that other state. Students being resident of a contracting state, however solely for the purpose of their education are exempt from taxation in that other contracting state if their payments arise from sources outside that state. Income arising from the payment of pensions arising from

social security legislation of a contracting state are subject to taxation only in that state. All other forms of income not mentioned in the forgone elaboration are to be taxed only in the contracting state of residence of the individual concerned.

Lastly, looking at the taxation on capital, only the agreement between Panama and Luxemburg as well as Spain contain an article on the matter. The paragraphs in both cases are equal in wording in content, however the Panamanian-Spanish agreement contains an extra paragraph. The Article allows for taxation of immovable and movable property of a resident of a contracting state and situated in the other contracting state by both contracting states. Capital in the form of ships or aircrafts operating in international transport however shall only be taxable in the state where the effective place of management is situated. All other capital underlies taxation through the state of residence of the owner.

V. Implications for Members – An Analysis

Having elaborated on the general functioning of DTAs and looked into the official policy documents, one needs to regard the implications for businesses as target group of this work. Returning to the initial research question, the focus of this section is to ask: 'What are the Prospects of a German-Panamanian Double Tax Agreement for Members of the Chamber?'. The issues will be addressed by looking at implications for businesses, while additionally regarding private individuals.

The implications of a DTA between Panama and Germany would be noticeable for enterprises engaging in cross border business operations, in particular if involving a permanent establishment in the other country. Readdressing the investigation of the forgone section, one has to note that the application of a DTA leads to an ordered distribution of taxation rights with the objective to abolish double taxation. The two states concerned legally agree to offset double taxation of their withholding taxes, while setting rules and conditions towards the taxation of dividends, interest, capital gains and other types on incomes. However, Germany as an OECD country will most likely enter an agreement with Panama with its full scope of withholding tax, namely income, corporation, local business and capital tax. Looking at Panama on the other side, it remains questionable if it will subject both of its principal taxes to the agreement. In six of the eight considered treaties, only the income tax has been part of the agreement. Solely Spain and Luxemburg enjoy the inclusion of the corporate tax (aviso de operación). However, Germany as one of the major players in the OECD and highly export-oriented economy might achieve the inclusion of the latter. Hence, the redistribution of taxation rights will be felt by German business without a permanent establishment, operating from Germany in Panama, through the offset of German and Panamanian taxes. In the best case, the level of taxation will be limited to the level applied within Germany. In the worst case, the Panamanian corporate tax will be excluded from the agreement and levied additionally to the German level of taxation on the value of business operation in Panama. The distribution of taxation rights (Chapter III) can be expected to more preferable to the German state than in the agreements with Italy and Portugal. Their agreements with Panama give over average rights to tax income from interest, dividends and royalties. One should be expected that conditions to be negotiated would lean closer towards the ones to be found in the agreements with the Netherlands, Spain and France. This would resemble a maximum taxation of 5% of the gross interest payment, as well as a 5% tax on the gross amount of dividends if a threshold of ownership of capital was reached.

The scenario differs distinctly if a business concerned by a DTA maintains a permanent establishment in Panama. If a German enterprise would conduct its business through a permanent establishment, the income attributable underlies exclusive taxation through

Panamanian fiscal authorities. According to Article 7, equally worded in all regarded agreements, all types of incomes related to the PE, including income from interest, dividends, royalties, etc. would only be subject to the Panamanian income and cooperation tax, resulting in a substantially lower tax burden. Consequently, business profits realized in Panama could be transferred to the holding or parent group on German territory on lower Panamanian tax, without being liable to further taxation of that portion of income in Germany. Given the substantially lower level of taxation in Panama, it would represent a desirable outcome.

Looking at implications for private individuals, a DTA between Germany and Panama would particularly be beneficial for people holding pension claims and employees in governmental services. Generally, for individuals the residence principle applies. Income is to taxed where the individual resides or maintains closest personal and economic relations. However, all agreements subject to analysis suggest that pensions from social security legislation are taxable only by the country paining the pension. Furthermore, employees in governmental services, residing and working in the other contracting state would enjoy a substantial reduction of income tax. If being, for instance a German national working for a German governmental institution in Panama, the individual would only be liable to taxation in Germany. Contrarily, if being a Panamanian Citizen in the same constellation, the individual would only be liable to taxation in Panama.

In sum, a DTA does what its name suggests - abolish double taxation wherever possible. Such agreements do not seek to impose new taxes but to legally binding redistribution of taxing rights where there are conflicts on tax ownership of income tax. Meanwhile, they shall reduce taxation towards the country with the higher level of tax. Towards German enterprises operating in Panama, the enforcement of a DTA is highly desirable, if not greatly delayed. Given that other major OECD trading economies already concluded agreements, it remains controversial why there is no sign of continuous efforts towards treaty signature. Although the German embassy in Panama confirmed that there is an agreement regarding international transportation in the final state of negotiation, the two parties missed the deadline for enforcement in 2015. Since DTAs signed always enter into force on following first of January, even If being signed in 2016, it would not enter into force before first of January 2017. Moreover, it remains questionable whether negotiations on an all-embracing Double Tax Agreement will follow up immediately. Lastly, the issue of taxation of capital remains largely unresolved by the agreements investigated. Only two agreements included a passage on the issue, granting taxation rights on the residence principle if not referring to capital as defined by the agreements as immovable or movable capital. The exclusion of such passage appears unfavorable for both, companies and individuals. Since no clear ownership of taxation rights are defined on such capital, they might find themselves exposed to arbitrary taxation by both countries. Finally, one should note that the advantages displayed for German businesses

and individuals operating in Panama, also apply reciprocally for Panamanian business and individuals operating in Germany.

VI. Conclusion

This work sought to enhance the understanding of the general nature and prospects of the signature of a DTA for companies and individuals involved in cross border relations with respect to taxation on income and capital. The author has shown that Double Tax Agreements establish legally binding commitments regarding the redistribution of taxation rights, in order to minimize double taxation and counter fiscal evasion. To achieve this aim, the states agree to relinquish some tax by splitting their rights to taxation. Remember that DTAs do not primarily serve the stimulation of domestic business relations, but operate in a reciprocal manner to facilitate international trade generally. Nonetheless, certain benefits for individuals and business are undeniable. The burden on tax would be reduced notably, in particular if a business operates through a permanent establishment. On the other hand, individuals enjoy exclusive taxation in their state of residence, while pensions from social security remain taxable only to the state where they are borne. Equally, employees in government service would be taxed based on grounds of nationality. However, further process in negotiation of a German – Panamanian Double Tax Agreement seems eased. An agreement for international transportation has been in the process of negotiation and is stuck in the final phase. Whether the parties will sign the agreement in 2016 and if an all-embracing agreement will follow up in the short-term remains questionable.

As stated earlier, this work only sought to provide some basic and general insight in the matter of Double Tax Agreements and foreseeable prospects for individuals and businesses concerned. International tax law is a highly complex field, providing employment for lawyers and consultants in an ever-increasing sector. Research building upon this work should engage in subjective analyses looking at how OECD businesses yet profiting from a DTA in force with Panama benefit. Moreover, due to its listing in several grey-lists, research should be directed towards Panamas supposedly involvement in questionable practices such as having established itself as tax haven.