

No. 7116

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**UNITED STATES OF AMERICA  
and  
PANAMA**

**Exchange of notes constituting an agreement relating to  
withholding of Panamanian income tax. Panamá,  
12, 29 and 30 August 1963**

*Official texts: English and Spanish.*

*Registered by the United States of America on 7 February 1964.*

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**ÉTATS-UNIS D'AMÉRIQUE  
et  
PANAMA**

**Échange de notes constituant une convention relative à la  
retenue à la source de l'impôt panaméen sur le revenu.  
Panama, 12, 29 et 30 août 1963**

*Textes officiels anglais et espagnol.*

*Enregistré par les États-Unis d'Amérique le 7 février 1964.*

No. 7116. EXCHANGE OF NOTES CONSTITUTING AN AGREEMENT<sup>1</sup> BETWEEN THE UNITED STATES OF AMERICA AND PANAMA RELATING TO WITHHOLDING OF PANAMANIAN INCOME TAX. PANAMÁ, 12, 29 AND 30 AUGUST 1963

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I

*The American Ambassador to the Panamanian Minister of Foreign Relations*

Panamá, R. P., August 12, 1963

No. 80

Excellency :

In response to the request of the Republic of Panamá, I have the honor to propose that the United States of America deduct and withhold income tax imposed by the Republic of Panamá upon the income of persons who are not exempt from income taxation by the Republic of Panamá and who reside either in the Canal Zone or in the Republic of Panamá and are employed within the Canal Zone in the service of the Canal, the railroad, or auxiliary works, insofar as that income is earned by service with the Canal, the railroad, or auxiliary works.

I have the further honor to propose the following withholding system :

1. There shall be withheld from the compensation of those employees not exempt from income taxation by the Republic of Panamá and who reside either in the Canal Zone or in the Republic of Panamá and are employed within the Canal Zone in the service of the Canal, the railroad, or auxiliary works, the amount of income tax, as computed in accordance with paragraph 4 of this agreement, imposed on such compensation by the law of Panamá.

2. The withholding of income tax shall commence with respect to compensation paid on or after September 1, 1963.

3. The withholding of the income tax of the Republic of Panamá shall be upon the compensation subject to such withholding under the provisions of the income tax law of the Republic of Panamá.

4. Withholding of the income tax of the Republic of Panamá shall be implemented in accordance with, and at the rates prescribed by, provisions of the income tax law of the Republic of Panamá, subject to any adjustments that may be required for mechanical reasons. Any amendment to the income tax law will be implemented upon a copy of such amendment being furnished to the United States by Panamá ; provided, that such

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<sup>1</sup> Came into force on 30 August 1963 by the exchange of the said notes.

amendment does not create an employer contribution not deriving from the compensation due the employee and provided that any tax levied pursuant to such an amendment shall be imposed on a non-discriminatory basis and shall in no case be imposed at a rate higher or more burdensome than that applicable to income of citizens of the Republic of Panamá generally.

5. The form and timing for reporting withheld income tax, and the method and timing of payment of the amounts withheld to the appropriate authorities of the Republic of Panamá shall be resolved by administrative agreement between those authorities and the agencies of the United States Government involved.

It is hereby understood that nothing in this agreement is to be construed

a. as consent by the United States of America to the imposition or withholding of any tax of the Republic of Panamá upon :

- (1) members of the Armed Forces of the United States of America,
- (2) citizens of the United States of America, including those who have dual nationality, and
- (3) other individuals who are not citizens of the Republic of Panamá and who reside within the Canal Zone,

to which they are not now subject as stated in Article 2 of the 1955 Treaty of Mutual Understanding and Cooperation.<sup>1</sup>

b. as consent to collection by the Canal, the railroad, or auxiliary works of any amounts connected with the income tax of the Republic of Panamá—e.g., delinquent taxes, fines, penalties, et al—except the withheld tax specified in this agreement.

c. as subjecting the United States of America, the Canal, the railroad, or auxiliary works, or any employees thereof as a consequence of this agreement to deduct and withhold to any civil, administrative, or penal action provided for by the law of the Republic of Panamá.

Accept, Excellency, the renewed assurances of my highest and most distinguished consideration.

Joseph S. FARLAND

His Excellency Galileo Solís  
Minister of Foreign Relations

<sup>1</sup> United Nations, *Treaty Series*, Vol. 243, p. 211.

[TRANSLATION<sup>1</sup> — TRADUCTION<sup>2</sup>]

REPUBLIC OF PANAMA  
MINISTRY OF FOREIGN RELATIONS

Panamá, August 30, 1963

No. PREU-679/1021

Mr. Ambassador :

I have the honor to acknowledge receipt of Your Excellency's note No. 80 dated August 12, 1963, which reads as follows :

[See note I]

In reply, I have the honor to signify the agreement of the Government of the Republic of Panama to the procedure set forth in Your Excellency's note transcribed above.

Accept, Excellency, the renewed assurances of my highest and most distinguished consideration.

Galileo SOLIS  
Minister of Foreign Relations

His Excellency Joseph S. Farland  
Ambassador of the United States of America  
City

III

*The American Embassy to the Panamanian Ministry of Foreign Relations*

No. 176

The Embassy of the United States of America presents its compliments to the Ministry of Foreign Relations of the Republic of Panama and, with reference to its note No. 80 of August 12, 1963 regarding the withholding of Panamanian income taxes from the salaries of those employees of United States agencies in the Canal Zone liable for the payment of such taxes, has the honor to confirm that the term "auxiliary works", as used in note No. 80, is intended and understood to cover all United States Government agencies in the Canal Zone, including the Armed Forces of the United States.

Embassy of the United States of America  
Panamá, August 29, 1963

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<sup>1</sup> Translation by the Government of the United States of America.

<sup>2</sup> Traduction du Gouvernement des États-Unis d'Amérique.