



Global Minimum Tax Rate Solution – Reactions of countries in the world and direction for Vietnam

The global minimum tax rate (also known as the Pillar 2 solution) has become a "hot" topic discussed by business community and the Governments. The Pillar 2 implementation will have a great impact on the investment strategies of large corporations as well as the investment attraction policies of many countries, particularly the developing countries like Vietnam.

Therefore, finding solution to effectively adapt to Pillar 2 while attracting investment is currently a difficult problem not only for Vietnam but also for many countries around the world. Ms. Vu Thu Nga, Tax Partner of Deloitte Vietnam had in-depth sharing about this issue.

Concerns of businesses and expectations for Vietnamese government

According to the results of the *"Global Tax Issues 2022" survey (Global Tax Survey)* conducted and recently published by Deloitte, the global minimum tax rate is considered by multinational corporations as one of the outstanding tax topics in 2022. There is up to 56% of the surveyed multinational corporations believe that many countries will implement the Pillar 2 solution by 2024 and up to 55% of the surveyed corporations have actively consulted to implement the OECD's Pillar 2 solution.¹

In Vietnam, the Global Minimum Tax is also the topic highly concerned by the business community, Vietnam Government and the related Ministries and agencies. Joining the implementation of Global Minimum Tax, the Corporate Income Tax ("CIT") incentives would likely no longer be the competitive advantage of Vietnam compared to other countries, which requires the Government to have solutions to reform certain policies on both tax incentives and non-tax incentives to align with the global tax environment. Accordingly, on one hand, the Government needs to have comprehensive studies and assessments of the impact of such proposed solutions for Vietnam. On the other hand, the Government also needs to observe and learn how other countries react to Pillar 2 so

¹ [Global BEPS Survey | Tax | Deloitte](#)

that the proposed solutions shall be practical, suitable for Vietnamese conditions but still stay in the trend of the world.

Reactions of other countries to the OECD's Pillar 2 solution

According to our observations, the Government agencies in other countries are focusing on the following concerns:

When is the right and feasible time to adopt Pillar 2?

According to the latest report of OECD General Secretary to G20 Finance Ministers and Central Bank Governors in July 2022, most countries are planning to adopt Pillar 2 by 2024 – one year behind the OECD's proposition of 2023. Despite some delay in getting consensus (Draft EU's Directive has been currently agreed by 26/27 member states except for Hungary), the implementation of Pillar 2 would be likely inevitable, only remaining matter is timing. The implementation of Pillar 2 from 2024 will also give the OECD more time to develop the Pillar 2 Implementation Framework, and better facilitate the coordination among tax management authorities in countries impacted by the Pillar 2.

How should each country's internal laws change to accommodate Pillar 2's implementation?

Up to now, all G7 countries, EU, some G20 countries and many other countries have made their own plans to amend their domestic laws to apply the Pillar 2 Model Rules. The implementation of Pillar 2 requires each country to consider comprehensively changing relevant regulations, not only tax regulations but also other regulations on investment, industry, trade, science, and technology, etc.

Many countries such as Singapore, Hong Kong, Malaysia, UK, etc. have high probability of implementing a domestic minimum tax mechanism to protect their tax base. This is also a measure to help countries to eliminate tax incentives that do not really work, as well as limit the profit shifting of multinational corporations. For some countries with undeveloped investment incentive systems, Pillar 2 can be seen as a "boost" to accelerate the transition toward new policies issuance. This will help effectively closing the policy gap between the local law and international practice, hence speed-up the process of global development and integration of the country's economy.

Compensation for investors affected by Pillar 2

The Global Minimum Tax could directly increase the tax liabilities of in-scope multinational corporations and indirectly impact their investment strategies in the

countries. Particularly for developing countries, the investment environment will not be as attractive as before if there are no measures to increase competitive advantages other than tax incentives to retain the investors. Currently, compensatory measures, such as monetary subsidies, are being discussed in some countries. However, deciding which compensatory measure to be applied is an issue that requires consideration of the impact of other factors such as investment guarantees, fairness among investors as well as the conformity with international commitments, risks of violating OECD principles in the Pillar 2 solution, national budget utilization, etc.

From another perspective, in the countries such as Singapore, Hong Kong, etc. there are some points of view that the Global Minimum Tax would not lead to investment shifting of the multinational corporations out of these countries because their investment and business environment inherently have many advantages such as simplified administrative procedures, innovation capabilities, technology potentials, non-tax incentives, etc.

For developed countries such as Japan, South Korea, the US, European countries, etc., no country has had any official announcement of compensation measures for the investors affected by the Pillar 2.

Recommendations for the government and foreign investors in Vietnam

Facing the impact and inevitable trend of the Global Minimum Tax solution, multinational corporations will also adjust their investment strategies to align with this trend, the countries will individually tailor their own solutions to adapt appropriately.

I propose some recommendations to investors and Vietnam Government as follows:

For foreign investors, they should actively follow up the process of changing policies and impact assessment to make reasonable strategic adjustments to optimize incentive policies in Vietnam, particularly:

Policy follow-up and advocacy

It is nearly two years from now till the Pillar 2 implementation kick-off (2024), more and more countries started their study and proposing the policy solutions to react to Pillar 2. Therefore, foreign investors need to closely follow the development process of the OECD Pillar 2 Solution Framework, policy reform orientation of Vietnam, the countries where their subsidiaries operate and their home countries to update and have the appropriate understanding. Because the Pillar 2 reform solution is global, the investors can actively share and recommend to the Vietnamese Government from the perspective of international experience for appropriate changes in policy to guarantee the investors' interest.

Proactive impact assessment

In the process of finalizing the Pillar 2 Solution Framework, differences in impact assessment perspectives between investors and governments may arise because this is a new and complicated policy. Therefore, each business needs to proactively assess the impact of Pillar 2 at its Group level to well prepare for changes in policy in the near future.

For Vietnamese Government, the strategy should focus on 02 aspects:

Firstly, regarding policy changes: tax and non-tax preferential/incentives policy solutions should be studied early to amend, supplement or replace in 2022 and 2023 in order to promptly take effect along with the time of Pillar 2 application in 2024. Vietnam may consider applying some technical solutions such as domestic minimum tax, preferential tax rate of 15% during the appropriate period of time or the cash support measure as some countries are considering in order to minimize the negative impacts of the Pillar 2. Besides, Vietnam should continue to study, innovate the current incentive policies towards the goal of attracting investment projects using advanced technologies, high technologies and clean technologies. The process of changing incentive policies of other countries which having the impacted investors should also be closely followed to react appropriately.

Secondly, regarding business management: It is necessary for the Government to early establish a Task Force on Global Minimum Tax to form the team of experts to study, advise for the Government to effectively carry out the proposed solutions. Building financial databases, tools to determine effective tax rate using information technology application also needs to be well prepared to support and facilitate for businesses in calculating and declaring obligations when applying Pillar 2 solution. Concurrently, the Government should also continue promoting and strengthening dialogue channels, consult the business community and professional tax consulting firms in the process of developing legal framework on policies and management scheme so that solutions when implemented would be practical and be able to gain positive consensus from businesses.



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