

UPDATE ON CHANGES

**Update on changes
in Corporate Income
Tax under
Resolution
107/2023/QH15 in
implementation of
Pillar 2 on Global
Minimum Tax**

Accelerate to breakthrough

May 2024





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What is global minimum tax?



On 29 November 2023, the National Assembly approved Resolution 107/2023/QH15 ("Resolution 107") promising to bring further changes in Corporate Income Tax ("CIT") when implementing the Global Minimum Tax.

The Global Minimum Corporate Income Tax (referred to as the Global Minimum Tax) is one of the two main pillars of the Action Program to combat base erosion and profit shifting (BEPS), initiated by the Organization for Economic Cooperation and Development (OECD) in June 2013.

For enterprises with foreign direct investment (FDI) operating in Vietnam, the Resolution stipulates standard domestic minimum additional corporate income tax (QDMTT).

The global minimum tax will impact the flow of foreign capital invested in Vietnam, especially for large corporations, by reducing the effectiveness of tax incentive policies in Vietnam. Vietnam is applying the general corporate income tax rate at 20%.

Through tax incentive policies to attract and promote investment, the actual tax rates applied to preferential businesses will be below 15% or tax-free. Accordingly, QDMTT will bring the actual tax rates to 15% and increase the tax burden for some FDI enterprises enjoying incentives. The General Department of Taxation estimates that about 120 foreign corporations operating in Vietnam will be affected by the global minimum tax.

1. Taxpayer

Taxpayer subject to Resolution 107 is constituent entity of a Multinational Enterprise (“MNE”) Group that generates a revenue of at least EUR 750 million for at least 02 years out of 04 years preceding the fiscal year according to the consolidated financial statement of the Ultimate Parent Entity (“UPE”), except for specific cases stipulated in the Resolution (including governmental entities, international organisations, non-profit organisations, pension funds, any investment fund that is an ultimate parent entity, any real estate investment vehicle that is an ultimate parent entity or any entity where at least 85% of its asset value is directly or indirectly owned through mentioned entities).

In particular, constituent entity of MNE Group means any entity that is included in the group and any permanent establishment of an entity within the group, including:

- The UPE;
- The intermediary parent entity (if any);
- The partially-owned parent entity (if any);
- Other companies, organisations, units, business units of the group.

The Consolidated Financial Statements of the UPEs are those that would have been prepared in accordance with an Authorised Financial Accounting Standard that is either an Acceptable Financial Accounting Standard or another financial accounting standard that is adjusted to prevent any Material Competitive Distortions.

2. Qualified Domestic Minimum Top-Up Tax (QDMTT)

In case a constituent entity or a group of constituent units of a MNE Group having business operation in Vietnam in the fiscal year and the effective tax rate of the MNE Group in Vietnam is lower than the minimum tax rate (i.e., 15%), a Top-up Tax liability must be paid to ensure the tax rate applied in Vietnam in the fiscal year not lower than 15%.

According to Resolution 107, the Top-up Tax formula is referred to the GloBE Rules in which tangible assets and payroll are deducted under the GloBE Rules (Substance-based Income Exclusion) when determining the Excess Profit as the basis for calculating Top-up Tax.

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4. Income Inclusion Rule (IIR)

An UPE, partially owned parent entity, intermediary parent entity in Vietnam that is a constituent entity holds ownership of a constituent entity subject to low tax rates abroad (Low-Taxed constituent entity) under the Global Minimum Tax Regulations at any time during the fiscal year must declare and pay allocated CIT from Top-up Tax under the Global Minimum Tax Regulation, unless the Top-up Tax has been given priority to be paid in another jurisdiction under the GloBE Rules.

5. Tax declaration and payment

- For QDMTT, the deadline for declaring and paying Top-up Tax is 12 months after the end of the fiscal year.
- For IIR, the deadline for declaring and paying Top-up Tax is 18 months after the end of the fiscal year first fiscal year in scope and 15 months for subsequent fiscal years in scope

III. Other remarks

The jurisdictional Top-up Tax will be determined to be 0 (zero) in the fiscal year if the constituent entity or a group of constituent entity satisfies all the following conditions in the relevant fiscal year:

- The average GloBE Revenue of the jurisdiction is less than EUR 10 million;
- The average GloBE Income of the jurisdiction is less than EUR 01 million or there is a loss.

The Resolution takes effect from 1st January 2024 and applies from fiscal year 2024, with transitional relief for fiscal years before 31st December 2026.



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