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# How the Global Minimum Tax Will Affect Businesses in Vietnam's Economic Zones and Industrial Parks

*ASG Analysis*

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## Key Takeaways

- On January 1, 2024, Vietnam raised the effective corporate income tax rate for large multinational corporations (MNCs) to 15% in accordance with the OECD's global minimum tax (GMT) framework. With the new rate, approximately 120 foreign companies in Vietnam will face a steep increase in tax payments.

- The GMT framework significantly affects the country's ability to provide tax incentives. This especially impacts corporations in Vietnam's special incentive areas—which include "economic zones" (EZs) and "industrial parks" (IPs)—as they utilize reduced tax rates and tax holidays as central tools for attracting foreign direct investment (FDI).

- EZ and IP programs in Vietnam are already undergoing a series of challenges and reforms. On February 1, 2024, Vietnam introduced the Regulation on High-Tech Parks, marking a major step in the implementation of the comprehensive reform of the EZ and IP framework initially adopted in 2022. Properly leveraging the non-tax features of the new framework can enhance the performance of EZs and IPs, fostering an environment favorable to innovative businesses and facilitating high-quality investments.

- The interplay of these new laws on tax incentives and investment assistance presents a critical opportunity for MNCs in Vietnam to influence and benefit from the next stage of Vietnam's special incentive zones.

## Implementation of the Global Minimum Tax (GMT)

In November 2023, the Vietnam National Assembly passed Resolution No.107/2023/QH15, adopting into domestic law the global tax reform led by the OECD and agreed to by 139 countries. This new GMT applies a minimum 15% income tax to multinationals with annual global turnover of more than €750 million (US$825 million), regardless of the location of their operation. The purpose of the GMT is to make it harder for large MNCs to avoid taxes by shifting profits to jurisdictions with lower tax rates.

The GMT law allows Vietnam to collect the "top-up tax," which is the difference between a company's effective tax rate and the 15% minimum. Three features of the GMT regime are particularly relevant to foreign enterprises operating in Vietnam:

- **Qualified Domestic Minimum Top-Up Tax (QDMTT)**: The central government of Vietnam will collect the QDMTT from any company in Vietnam that is a subsidiary of an in-scope MNC (revenue greater than €750 million [US$825 million]). This tax entails charging the difference between 15% and the effective tax rate, representing a potential increase in tax obligations for MNCs. Although the current statutory corporate income tax rate is 20% in Vietnam, OECD's accounting model takes tax incentives into account when calculating effective corporate tax rates, which means that many MNCs will be subject to additional tax obligations through the QDMTT.

- **Income Inclusion Rule (IIR)**: When the jurisdiction of an MNC's subsidiary entity does not levy corporate income tax up to 15% through either the statutory tax or the QDMTT, the IIR mechanism allows the jurisdiction of an MNC's parent entity to collect top-up tax if that country has implemented the GMT regime. With Vietnam's implementation of the GMT, foreign investors in Vietnam should expect to pay the top-up tax to Vietnam as the QDMTT rather than to their home countries through the IIR. Nonetheless, the IIR is important as investors respond to the new tax regime. Home countries of many of Vietnam's largest MNCs, including South Korea, the U.K., and EU countries, are among early adopters of the GMT. *Thus, it will be increasingly difficult to avoid the minimum tax by offshoring production from Vietnam to another low-tax jurisdiction.*

- **Substance-Based Income Exclusion (SBIE)**: The SBIE provides relief for substantive investments that are less subject to profit shifting or short-term investing. The feature multiplies tangible assets and payroll expenses with a fixed rate of return. It is the portion of income exceeding the return of these "substantive activities" that is the tax base for the GMT. In 2024, the amount equals 9.8% of the total payroll costs plus 7.8% of the total carrying value of tangible assets. Because tax incentives on substantive expenses do not affect the calculation of the effective tax rate, *we can expect governments to rely more on targeted, expenditure-based incentives instead of general tax reductions in the future.*

Samsung is an illustrative example of how the GMT can change Vietnam's investment landscape. As the largest foreign enterprise in Vietnam, the company has chosen to transfer a large part of its smartphone production from China to Vietnam. Since 2008, Samsung has invested a total of US$19 billion in Vietnam and produces 50% of its smartphones and tablets in Vietnam. However, Samsung pays an effective tax rate of 6%. This is representative of many MNCs that are paying corporate income tax at an effective rate lower than the statutory rate of 20%.

Concerned that the GMT will deter foreign investment, Vietnam has proposed a GMT support fund as an offset policy to channel the increased tax revenue from GMT back to foreign investors in certain sectors through expenditure reimbursement. The pool of additional tax revenue that could be used for such purposes is estimated to be US$601 million per year. However, finalization of the plan has been delayed to ensure OECD compliance and avoid legal risks.

## Reforming Vietnam's Special Incentive Areas

The new restrictions on incentive policies join several challenges that economic zones and industrial parks currently face in Vietnam.

When it established its first economic zone in 1991, Vietnam was a late adopter of the special economic zone model among its ASEAN neighbors such as Singapore (1951), Malaysia (1971), the Philippines (1972), Indonesia (1973), and Thailand (1978). Starting with EZs that serve as simple industrial estates, since 1996, Vietnam has experimented with several models of specialized zones such as technology parks, border zones, and coastal economic zones.

Under the current framework, specialized zones in Vietnam fall into two broad categories: Industrial Parks (IPs) and Economic Zones (EZs).

| | Industrial Parks (IPs) | Economic Zones (EZs) |
| --- | --- | --- |
| **Definition** | An area enclosed by defined boundaries, specializing in the production of industrial goods and provision of services satisfying industrial production needs. | An area encompassing industrial, commercial, and residential activities, established to achieve the goals of attracting investment, promoting socio-economic development, and maintaining national defense and security. |
| **Types** | Export processing zones, supporting industrial parks, specialized industrial parks, eco-industrial parks, high-tech industrial parks | Coastal economic zones, border economic zones, specialized economic zones |
| **Functions** | IPs are primarily dedicated to providing the necessary infrastructure to support industrial activities. They follow a structured order for planning, approval, implementation, financing, and construction. The management board of IPs has shared responsibilities with EZs, including the development of rules and procedures, construction and zoning plan approval, and investment promotion program implementation. Additionally, both IP and EZ management boards are tasked with issuing licenses, handling complaints, and fostering collaboration between businesses. | EZs encompass a broader scope in promoting comprehensive economic and social development. In addition to the functions they share with IPs, the management boards of EZs coordinate the economic trajectory between the zone and the region. This includes managing foreign tourism enterprises, hiring consultants for investment promotion, formulating strategy for public investment capital, and proposing project lists. In essence, EZs serve as focal points for regional policy planning and coordination. |
| **Incentives** | Corporate Income Tax (CIT) reduction, holiday, and exemptions; import tax exemption; land tax exemptions and reduction; accelerated depreciation | In addition to the incentives available for IPs, projects in EZs are also eligible to mobilize funds by issuing municipal bonds and using public investment capital |
| **Size** | No more than 500 hectares during each stage of development | Larger than 5000 hectares for specialized economic zones, larger than 10,000 hectares for coastal and border economic zones |
| **Number** | As of the end of 2022, there are 407 IPs, with a total area of around 128,684 hectares | As of the end of 2022, there are 44 EZs, with a total land and water area of 871,523 hectares |

In addition to IPs and EZs, Vietnam also has four Key Economic Regions (KERs): North, Central, South, and Mekong Region KERs. Each KER spans multiple cities and provinces and encompasses major economic and investment hubs, with the goal of creating linkages and coordination for socio-economic development between regions. Unlike IPs and EZs, which are formed under the specific regulatory frameworks, KERs have no legal definitions and were established through a series of decisions issued by the office of the Prime Minister throughout the 2000s.

Central to Vietnam's strategy of internationalization, IPs and EZs across the country attracted a total investment of US$105 billion and US$231 billion as of December 2022, respectively, creating 3.9 million jobs and contributing to 50% of the country's exports. However, the original special zones model faces challenges as the market grows and competitors increase. IPs and EZs remain insufficiently integrated with other areas in Vietnam and lack sustainability and balance in comprehensive economic, environmental, and social development.

To address these issues, in 2022, the Vietnamese government issued a revised regulation (Decree 35/2022/ND-CP) that established two new IP models that enjoy priority access to state investment loans and to personnel and startup training.

- **Specialized Parks** cater to the production of goods in a particular industry or sector; at least 60% of their industrial land is designed to attract investment projects in that particular sector**.**
- **High-tech Parks** attract high-tech and IT investment per the list of sectors and industries receiving special investment incentives in the Vietnam Law on Investment; at least 30% of their industrial land is designed to attract investment projects in these sectors.

This decree improved the previous 2018 framework by providing detailed plans for EZs' and IPs' size and number and delegating more authority to local governing bodies. However, the decree focuses only on the management of IPs and EZs, leaving other aspects of their operation less coordinated, with regulation divided across various policies, including the Law on Investment, the Law on Planning, and the Law on Land.

On February 1, the Ministry of Science and Technology published the Regulation on High-Tech Parks (Decree 10/2024/ND-CP), specifying the implementation and management of the model proposed in the 2022 reform. Under this new decree, which became effective on March 25, 2024, high-tech parks will enjoy investment incentives equivalent to those applied to localities with extremely difficult socioeconomic conditions. The decree also seeks to convert parks into urban service areas, encouraging private investors to develop social infrastructure for workers. Both the 2022 framework and the new high-tech park model signal the Vietnamese government's emphasis on attracting specialized types of firms and capital.

## Implications

Before the finalization of the GMT support fund and the full implementation of the new IP and EZ framework, major corporations seeking to take advantage of opportunities in Vietnam need to act swiftly to be best positioned for a new investment landscape. These changes will directly impact MNCs that exceed the annual global turnover threshold of €750 million (US$825 million), which include at least 120 companies with operations in Vietnam.

In the near term, MNCs will file the GMT tax return within 12 months after the current fiscal year. To ensure both tax compliance and effective adjustment of investment strategies, corporations should develop a comprehensive understanding of their current use of tax incentives.

In particular, some of the current offerings in Vietnam's incentive areas will be more likely to incur top-up tax than others. The scope of the tax base covered by the incentive plays a pivotal role; overall corporate income tax reductions have more substantial impacts on the effective tax rate calculation than tax reductions on selected activities. More specifically, expenditure-based incentives for fixed assets, production, payroll, and research and development (R&D) costs are less likely to trigger top-up tax due to the Substance-Based Income Exclusion (SBIE) feature.

The table below assesses the impact the GMT will have on current tax incentives utilized in IPs and EZs:

| Existing Industrial Park Incentive | Degree of Impact |
|---|---|
| Corporate income tax incentives, including tax reductions and tax holidays | High impact |
| Custom duty exemptions for goods imported to create fixed assets and inputs for manufacturing | Low impact |
| Exemption from and reduction of land levy and land rents | Low impact |
| Accelerated depreciation for tangible assets, increasing deductible expenses when calculating taxable income | No impact |
| Deduction of construction costs for infrastructure in IPs and EZs from corporate income tax | No impact |

Moreover, various current provisions of non-tax investment assistance will not be affected, including:

- Access to concessional investment loans
- State budget support for the construction of key facilities
- Streamlined "one-stop, on-site" mechanism for administrative procedures
- Assistance in training and development of human resources
- Assistance in technology transfer, R&D, and information provision

## Conclusion

The implementation of the GMT regime poses challenges for Vietnam's IP and EZ developers and investors, necessitating a strategic response. In-scope MNCs face heightened tax costs, prompting the need to assess potential economic impacts and review existing contractual agreements related to investment incentives. Compliance complexity also increases, demanding increased data monitoring and reporting measures. All companies, both in- and out-of-scope, encounter challenges in navigating the specific qualification requirements for the new specialized EZ and IP models. Existing socio-economic obstacles persist, including rising land rental prices, complicated legal issues, and a shortage of skilled labor.

However, the GMT implementation is also a critical opportunity for Vietnam IP and EZ investors and developers to promote improvements in the business operating environment and foster shared growth. With the GMT revenue, public and private developers can collaborate to elevate the quality of administration, local infrastructure, and tax service support within the zones.

Furthermore, as Vietnam finalizes the GMT support fund, there is an opportunity to advocate for more targeted tax incentives. In addition to broad-based incentives and technical assistance for selected activities currently available, the incentive portfolio can benefit from the addition of specific tax incentives like investment allowances, training allowances, or R&D incentives. To make the most of these opportunities, companies should assess the cost-effectiveness of current incentives and evaluate their business models to identify areas that could benefit from additional state support, especially in technology, R&D, and human capital.

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