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TÁC ĐỘNG TIỀM NĂNG CỦA THUẾ TỐI THIỂU TOÀN CẦU (TRỤ CỘT 2) ĐẾN ĐẦU TƯ TRỰC TIẾP NƯỚC NGOÀI TẠI VIỆT NAM

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Tóm tắt

Bài viết nghiên cứu tác động của giải pháp Trụ cột 2 của OECD tới đầu tư trực tiếp nước ngoài tại Việt Nam. 142 quốc gia đã đạt được thỏa thuận về Giải pháp Trụ cột 2 của OECD (Tổ chức Hợp tác và Phát triển Kinh tế) vào tháng 10 năm 2021, tạo ra tác động và chuyển đổi lớn đối với chế độ thuế quốc tế. Bài viết phân tích thực trạng đầu tư trực tiếp nước ngoài tại Việt Nam trước và sau khi áp dụng Trụ cột 2 từ ngày 1/1/2024 nhằm xác định sự thay đổi tình hình đầu tư nước ngoài do giải pháp Trụ cột 2 của OECD mang lại. Nghiên cứu cho thấy việc áp dụng Trụ cột thứ 2 sẽ mang lại cả tác động tích cực và tiêu cực đến đầu tư trực tiếp nước ngoài tại Việt Nam. Không thể nghi ngờ, với việc áp dụng Trụ cột 2, hệ thống thuế của Việt Nam sẽ minh bạch hơn, trở nên hấp dẫn hơn đối với các nhà đầu tư bền vững và có đạo đức, đồng thời tăng ngân sách chính phủ để tái đầu tư vào cơ sở hạ tầng, tăng cường áp dụng quy định, v.v. Tuy nhiên, đối với một nước đang phát triển như Việt Nam, Trụ cột 2 cũng sẽ làm giảm sức hấp dẫn của môi trường đầu tư và gây khó khăn cho nước nhận đầu tư trong việc duy trì mức đầu tư. Bài viết cũng đưa ra các khuyến nghị khác nhau dành cho Việt Nam nhằm duy trì khả năng cạnh tranh đầu tư của thị trường Việt Nam với sự thay đổi về chế độ thuế. Các khuyến nghị này tập trung vào các biện pháp cụ thể nhằm tận dụng lợi thế của Trụ cột 2 trong hệ thống thuế của Việt Nam và các biện pháp nâng cao năng lực cạnh tranh của quốc gia trong việc thu hút đầu tư trực tiếp nước ngoài mà không phụ thuộc quá nhiều vào ưu đãi thuế.

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Từ khóa: Thuế tối thiểu toàn cầu, Trụ cột 2, tác động tiềm năng, FDI, Việt Nam

POTENTIAL IMPACT OF GLOBAL MINIMUM TAX (PILLAR TWO) ON FOREIGN DIRECT INVESTMENT IN VIETNAM

Abstract

This paper explores the impact of OECD Pillar Two solution on foreign direct investment in Vietnam. The agreement of 142 countries on the OECD (Organization of Economic Co-operation and Development) of Pillar Two solution reached in October 2021 has created a great impact and transformation of the international tax regime. This paper analyzes the situation of foreign direct investment in Vietnam before and after the application of Pillar Two on January 1st, 2024, with the aim to define the change in foreign direct investment situation due to the OECD Pillar Two solution. The research finds that Pillar Two application would bring both positive and negative impacts to foreign direct investment in Vietnam. Indubitably, with Pillar Two activation, the Vietnamese tax system will be more transparent, attractive to sustainable and ethical investors and increase government budget in order to reinvest in infrastructure, regulatory enhancement, etc. However, for a developing country like Vietnam, it will also reduce the attractiveness of the investment environment and create difficult problems for the recipient country to maintain its investment level. The paper also seeks to explore different recommendations for Vietnam in order to keep the Vietnamese market competitive as a host country of foreign direct investment with the change in tax regime. These recommendations focus on specific measures to leverage the advantage of the Pillar Two on the Vietnamese tax system and ways to improve the national competitiveness in attracting foreign direct investment without relying immoderately on tax incentives.

Keywords: Global Minimum Tax, Pillar Two, potential impact, FDI, Vietnam

1. Introduction

In the context of internationalization and globalization, the development of information technology is changing traditional business models requiring state agencies to change both tax collection policies and management. In addition, the differences in tax management level and tax incentive policy such as lowering tax to the lowest possible level between countries and territories have provided opportunities for multinational enterprises (MNEs) to shift profits to low-tax countries to avoid corporate income tax.

In October, 2021, OECD - Organization for Economic Co-operation and Development provided a two-pillar framework statement to resolve the challenges arising relating to tax, in which, Pillar Two sets the global minimum tax rate of 15% for multinational enterprises (MNEs). This is currently an issue receiving a lot of attention both from the community of foreign investors and the recipient countries. Until now, Pillar Two has received 142 out of 142 consensus from member countries that joined the Inclusive Framework (IF) on Base erosion and profit shifting (BEPS) forum organized by OECD, including Vietnam. Being the destination of many capital flows from all over the world, Vietnam is expected to be impacted by the Pillar Two framework and the Global Anti-Base Erosion (GloBE) proposal. Vietnam has new and urgent requirements for examining and changing pertinent policies, including the corporate income tax policy, as a result of the effects of Pillar Two and the responses of participating countries.

Even though Pillar Two will definitely help the world to accomplish a modern tax system as well as global equality and justice, the impact of this framework on Vietnam is still questionable since the implication of Pillar Two just started on January 1st, 2024, with the discomposure of reducing the competitiveness of attracting FDI of Vietnam as a developing country.

This research paper aims to discuss different possibilities concerning the execution of Pillar Two in foreign direct investment in Vietnam. Furthermore, recommendations will be made to provide suggestions for improving Vietnam competitiveness of attracting foreign direct investment without depending on tax incentives.

2. Literature review

2.1. Previous research

Relationship between corporate income tax and foreign direct investment to a country has been examined by various researchers. In 2008, the Asian market was analyzed through Sudsawasd's model, showing that an increase in corporate tax can lead to the decrease in the FDI level. Sato, in 2012, observed the countries in OECD over the period of 1985 to 2005 came to the conclusion that "a one percentage point reduction in the corporate tax rate of the host country causes an increase of about 2.4 % in FDI". Stephano, P. (2023) insists that lowering tax rates remains to be the most effective instrument to attract foreign direct investment. However, tax incentives also go with negative implications such as companies only offer "shell structure" or profit shifting.

Concerning the attitude towards Two Pillar Solutions of different countries with different economic level, Burgers & Mosquera (2021) pointed out that developing nations would be more vulnerable to developed countries to tax avoidance of MNEs because the corporate income tax generates revenue to those governments as a percentage of GDP higher than that in developed countries. While many developing nations were in favor of Pillar One, or the revenue reallocation portion of the negotiations, they were less in favor of Pillar Two, or the global minimum tax of 15%. This was due to the fact that while the majority of developing nations desired greater revenue reallocations to their territories, they also needed strategies for luring in foreign direct investment in order to create jobs and accelerate economic growth. Therefore, they had no desire to cede their sovereign authority to set favorable tax rates and attract international investment (Deloitte, 2021).

The influence of Pillar Two on corporate income tax and foreign direct investment in Vietnam is a relatively new field that has just received attention from researchers and businesses in recent years. The parent businesses of over 1,000 FDI enterprises in Vietnam are liable to Global minimum tax application, according to the Ministry of Finance (2023). It's hard to say whether or not this will make big foreign firms decide not to invest in Vietnam. Currently, Vietnam is applying many tax incentive mechanisms for foreign direct investment enterprises in Vietnam. These tax incentives help make the actual corporate income tax of FDI enterprises only 12.3%, and even some large corporations are only subject to a tax rate of 2.75%-5.95% (Thu, D,, Huyen, T., 2023). A research paper of Anh, N., Ali, S., Arsalan, S. (2018) insists that Vietnam's long-term FDI strategy has to be more clearly defined. Apart from Vietnam's efforts to entice investors with investment promotions and higher tax breaks, the long-term objective is now unclear.

2.2. Research gap

Most existing studies focus on the relationship between foreign direct investment and economic growth in Vietnam, without discussing much about how tax policy changes can affect the foreign direct investment flow. Tax incentives are often mentioned besides many other factors such as infrastructure, trade agreement, etc in one research paper. Very few researches are found to emphasize solely on Vietnam’s tax policy and how applying the international tax regime would affect the foreign direct investment flows to Vietnam. Therefore, there is a research gap on the potential impact of Pillar Two on foreign direct investment in Vietnam, which needs to be addressed by conducting a more in-depth analysis.

3. Theoretical framework

3.1. Overview of Pillar Two of BEPS 2.0

On December 20, 2021, the OECD/G20 Inclusive Framework (IF) on Base Erosion and Profit Shifting (BEPS) released the Model Global Anti-Base Erosion (GloBE) rules (Model Rules) under Pillar Two.

Pillar Two, often referred to as the "global minimum tax" or "GloBE" (Deloitte, 2021), encompasses various components that are designed to address aggressive tax planning in the context of the digitalized and globalized economy. The primary objective of Pillar Two is to ensure that multinational enterprises (MNE groups) contribute their fair share of taxes in all jurisdictions where they conduct business and generate profits. Additionally, Pillar Two aims to mitigate tax competition among countries by establishing a globally standardized minimum tax rate (PwC, 2023).

Under the provision of Pillar Two, thousands of multinational groups worldwide will be subject to a global minimum tax rate of 15%. The specific tax rate will be determined based on a set of rules, and each jurisdiction in which a multinational group operates will be evaluated separately to ascertain whether its effective tax rate falls below the 15-percent threshold. If the effective tax rate is lower than the prescribed limit, a top-up tax will be calculated and paid to the multinational group's head office. Moreover, additional withholding taxes may apply to some payments made to related parties whose tax rates are lower than 9% (KPMG, 2022).

It is important to note that the application of Pillar Two rules is limited to multinational groups with annual consolidated revenue of at least EUR 750 million ("MNE groups"). The rules are designed to ensure that income is taxed at an appropriate rate, and they introduce complex mechanisms to enforce compliance with this tax regime. Implementing these rules will necessitate tax departments to gather significant new forms of financial data that may currently be unavailable within their organizations (KPMG, 2022).

Many aspects of Pillar Two will become effective for tax years commencing in January 2024, with certain remaining provisions anticipated to be enforced from 2025 onward (PwC, 2023). The European Union (EU) and several other jurisdictions have expressed their intentions to implement Pillar Two starting in 2024, while other countries and territories have indicated their plans to adopt it from 2025 (KPMG, 2022).

However, Pillar Two rules incorporate various exceptions that enable MNE groups to be exempt from potential tax implications, even in cases where the effective tax rate in certain jurisdictions is below the 15-percent threshold (PwC, 2023).

3.2. Overview of foreign direct investment

3.2.1. Definition

Foreign direct investment (FDI) refers to an investment where a resident entity from one economy (known as the foreign direct investor or parent enterprise) establishes a long-term relationship with an enterprise residing in a different economy (referred to as the FDI enterprise or affiliate enterprise or foreign affiliate). This investment signifies a lasting interest and control by the foreign investor in the enterprise (OECD, 1997). FDI indicates that the investor exerts a significant level of influence on the management of the enterprise in the other economy. It encompasses the initial transaction between the two entities and all subsequent transactions among their foreign affiliates, whether incorporated or unincorporated. FDI can be undertaken by both individuals and business entities. (UNCTAD, 2007).

3.2.2. Characteristics

Foreign direct investment (FDI) plays a crucial role in the integration of economies on a global scale by establishing long-lasting and stable connections between them. FDI serves as a significant channel for the exchange of technology between nations, facilitates international trade by providing access to foreign markets, and can act as a catalyst for economic development (OECD, 2024). Generally, organizations engage in foreign direct investment (FDI) with the aim of expanding their operations to a foreign destination (Adam, H., 2023).

The indicators included in this group encompass inward and outward values for stocks, flows, and income, categorized by partner country and industry, as well as FDI restrictiveness (OECD, 2024).

According to UNCTAD (2007), FDI flows represent the capital provided by a foreign direct investor to an enterprise, either directly or through related entities, or the capital received by a foreign direct investor from an investing enterprise. FDI consists of three main components: equity capital, reinvested earnings, and intra-company loans.

- Equity capital refers to the purchase of shares in an enterprise located in a country different from the investor's own.

- Reinvested earnings consist of the portion of earnings, based on the direct investor's equity participation, that are not distributed as dividends by affiliates or remitted to the direct investor. Instead, these retained profits are reinvested by the affiliates.

- Intra-company loans or intra-company debt transactions involve the borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises, whether on a short-term or long-term basis.

3.2.3. Types

FDI can take various forms. If divided by linkages, FDI takes 3 forms, which are horizontal FDI; vertical FDI; and conglomerate FDI (Adam, H., 2023). In specific:

- Horizontal foreign direct investment involves an organization setting up and operating the same type of business in a foreign country as it does in its home country.

- Vertical investment refers to an organization in one country acquiring a business in another country that complements its own operations.

- Conglomerate investment occurs when an organization invests in a foreign organization that is unrelated to its primary operations. This type of investment often takes the form of a joint venture since the organization lacks expertise in the foreign industry.

If divided by modes of FDI entry, 2 common types are (1) Greenfield investment when an enterprise sets up a new production venture in a host country and (2) Merger & Acquisition (M&A) referring to the transfer of assets from domestic to foreign investors by merging with or acquiring an existing local firm in the host country (UNCTAD, 2000).

4. Analysis of the potential impact of Pillar Two on foreign direct investment in Vietnam

4.1. The situation of Foreign direct investment in Vietnam before the implementation of Pillar Two

Over the years, Vietnam has affirmed its position as an attractive destination for foreign direct investment due to its preferential tax policy. In fact, in the past three decades, Vietnam has been successful in attracting foreign direct investment primarily by offering preferential tax rates and exemptions on corporate income tax. Specifically, according to the provisions in Articles 13 and 14 of the Law on Corporate Income Tax 2008 (amended in 2013), Vietnam has applied a number of tax incentive policies for a number of subjects as follows:

- Newly established companies that embark on investment projects in challenging socio-economic regions: granted complete tax exemption for the initial two years, followed by a 50% reduction in taxes for the subsequent four years.

- New investment enterprises operating in sectors considered essential for the community, such as education, vocational training, healthcare, culture, sports, and the environment: reduced tax rate by 10% for four years and enjoy a tax exemption period of four years and a 50% reduction in payable taxes for the following nine years.

- New investment projects undertaken in areas facing significant socio-economic difficulties, as well as economic zones, high-tech zones, software production, and scientific and technological research and development: eligible for a preferential tax rate of 10% for 15 years and receive a tax exemption for the initial four years and a 50% reduction in taxes for the subsequent nine years.

As a result, in Covid-19 pandemic context, the flow of foreign direct investment into Vietnam remains relatively stable while there was a reduction in foreign direct investment worldwide (UNCTAD's 2021). As evidenced by the fact that in 2020, the country entered the group of top 20 countries attracting FDI in the world with a total capital of 16 billion USD (UNCTAD, 2021). Up to now, Vietnam has attracted foreign direct investment from 142 countries and territories around the world (Ministry of Planning and Investment). The largest foreign direct investment partners of Vietnam predominantly originate from the Asian region, namely Singapore, Japan, South Korea, China, etc., besides, countries such as the Netherlands and the United States must be mentioned, which have shown significant interest in investing in Vietnam (Figure 1) (General Statistics Office of Vietnam (GSO), 2023). This noteworthy accomplishment underscores Vietnam's growing appeal as an investment destination, reflecting its efforts in creating an enabling business environment.

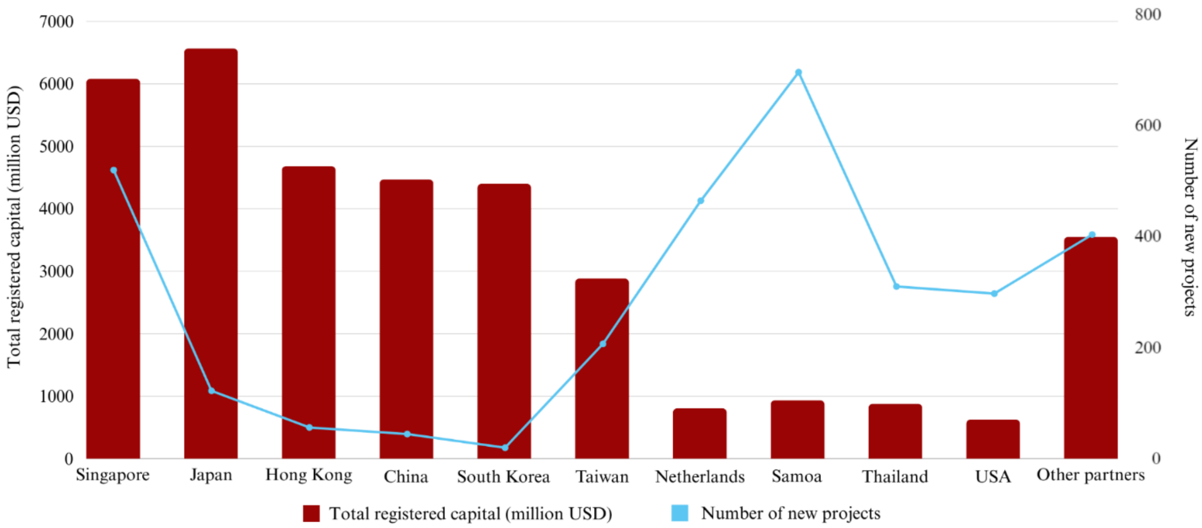

Figure 1. Foreign direct investment in Vietnam in 2023 by partner

Source: GSO, 2023

In terms of economic sectors, through GSO statistics, by 2023, foreign investors have invested in 18 industries out of 21 national economic sectors.

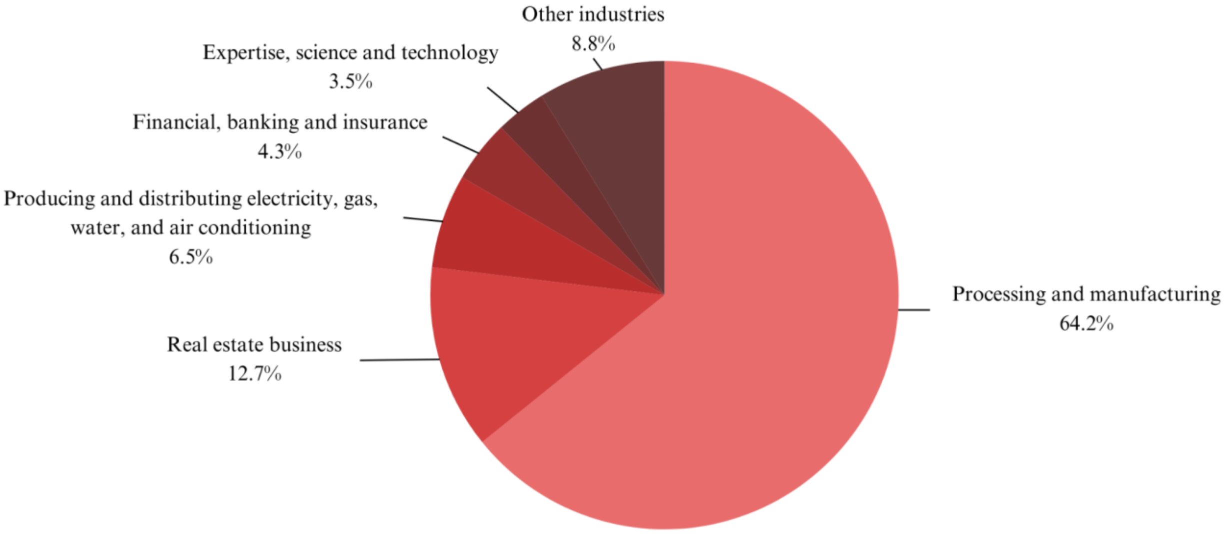

Figure 2. Foreign direct investment in Vietnam in 2023 by economic sector

Source: General Statistics Office of Vietnam (GSO), 2023

In which, it is obvious that foreign direct investment capital flows into Vietnam focused mainly on the processing and manufacturing industry, reaching more than 23.5 billion USD (64.2%) with the number of new projects accounting for 33.7%. Some big names that can be mentioned in this field are Samsung, Intel, LG, etc. With just over 300 projects, the total registered investment capital of these projects accounts for nearly 30% of total FDI capital in Vietnam, up to about 131.3 billion USD Significantly, it should be highlighted that they are all availing corporate income tax incentives that are below the threshold of 15% (Minh, Đ., 2023).

4.2. The potential impact on foreign direct investment in Vietnam after the implementation of Pillar Two

4.2.1. Positive impact

Reduce the problems of shifting profits to low-tax jurisdictions.

As originally declared, Pillar Two aims to establish a consistent regulatory framework on a global scale, addressing the issue of profit shifting and advocating for increased transparency in the field of taxation (OECD, 2019). Previously, multinational corporations (MNCs) had the ability to transfer profits to jurisdictions with lower tax rates, thereby reducing their overall Minimum Effective Tax Rate. The implementation of a minimum threshold now diminishes the effectiveness of such profit shifting, as countries where profits are artificially allocated will still receive a minimum tax of 15%. Data from the Ministry of Finance shows that in 2021, nearly 14,300 foreign-invested enterprises reported losses, accounting for 55% of the total number of FDI enterprises operating in Vietnam. It is notable that many FDI corporations suffered constant losses but have continued to expand their business in Vietnam. Therefore, the implementation of Pillar Two may help Vietnam to mitigate the level of profit shifting and tax evasion.

Increase national revenue

Implementing the Qualified Domestic Minimum Top-Up Tax (QDMTT) under Pillar Two has the capacity to yield increased tax revenue for Vietnam. This additional fiscal resource can be strategically allocated to fund investments in vital areas, including infrastructure, regulatory enhancements, and various fields aimed at augmenting the country's overall attractiveness to potential investors. According to the OECD's 2021 report, the proposed Global Minimum Tax set at 15% is expected to generate approximately USD 150 billion in new tax revenues globally annually (OECD, 2021). A study conducted in 2021, titled "Revenue Effects of the Global Minimum Tax Under Pillar Two" by Mona Baraké, Paul-Emmanuel Chouc, Theresa Neef, and Gabriel Zucman, reveals that the host country where the affiliate operates would be prioritized for collecting the top-up tax revenue. In this context, countries that have attracted affiliates of tax-aggressive multinational companies would experience the greatest benefits, particularly before accounting for any behavioral adjustments.

Focus on developing other incentives

Moreover, with the introduction of Pillar Two in Vietnam, there is a reduced emphasis on tax incentives. Consequently, Vietnam can shift its focus towards other factors that promote investment, such as a skilled workforce, infrastructure development, regulatory efficiency, and facilitation of business activities. Valuable lessons can be learned from the European Union (EU) as it remains a central point for investment in Europe. According to the European Commission, foreign direct investment reached €7.2 trillion by the end of 2018, constituting 45% of the EU's gross domestic product. Foreign-owned enterprises contribute significantly to business research and development (R&D) in countries like France, Germany, Spain, Portugal, Sweden, Austria, Belgium, and Ireland. The success in attracting foreign direct investment in these regions can be attributed to R&D and sustainability incentives. For example, the EU places a strong emphasis on sustainability incentives, offering subsidies, often in the form of cash grants, to companies of all sizes for investing in clean technology, adopting circular economy practices, and greening their supply chains. Furthermore, in Southeast Asia now, it is essential to recognize that an improved business environment, rather than tax and land incentives, is the key to attracting foreign direct investment (Oxfarm, 2020). Over the past decade, ASEAN countries have engaged in a competitive race to lower their Corporate Income Tax (CIT) rates and provide aggressive tax incentives to foreign multinational corporations. Consequently, the average CIT rate in ASEAN has decreased from 25.1% in 2010 to 21.7% in 2020. However, the excessive use of fiscal incentives can outweigh the benefits of additional foreign direct investment, leading to a loss in national tax revenues. Estimates indicate that lost budget revenue due to corporate tax incentives was approximately 6% of GDP in Cambodia, and 1% of GDP in Vietnam and the Philippines. Therefore, it is evident that tax incentives cannot serve as a sustainable long-term solution for attracting foreign direct investment in Vietnam. Instead, the nation should concentrate on cultivating a comprehensive and appealing investment environment.

Establish good image by combating tax evasion

Furthermore, Vietnam's adoption of Pillar Two serves as a testament to its firm commitment to international cooperation in combating tax evasion. This strategic move not only reinforces Vietnam's image as a responsible and reliable member of the global community but also underscores its deep integration into the global economy. Consequently, by embracing the principles of Pillar Two, Vietnam actively participates in the establishment of an equitable and transparent competitive milieu on a global scale. By proactively addressing concerns related to unfair tax competition, Vietnam not only demonstrates its commitment to responsible tax practices but also instills confidence among investors who prioritize sustainable and ethical investment environments.

4.2.2. Negative impact

Hinder the effect of tax incentives in Vietnam

Vietnam has extensively utilized tax incentives as a means to attract foreign direct investment. In recent years, Vietnam's strategy for attracting investment involved offering time-limited tax incentives, such as exemptions and reductions, for both new investments and expansions. These incentives can take the form of either a 4-year tax exemption followed by a 9-year reduction or a 2-year exemption followed by a 4-year reduction. Enterprises that receive foreign direct investment (FDI) enjoy an average tax rate of 12.3% during the incentive period (Phan Duc Hieu, 2023). Notably, some large corporations pay only a small fraction of the standard tax rate, which is set at 20%. Nevertheless, the implementation of Pillar Two, which enforces a global minimum tax rate of 15%, has the potential to counteract the advantages of lower tax rates provided by Vietnam. Consequently, this may diminish Vietnam's competitiveness relative to nations that have not adopted Pillar Two.

Violate clauses in some signed contract

Additionally, large-scale investment projects in Vietnam are typically shielded by investment agreements and private contracts, which contain specific provisions exempting them from other regulations such as tax reduction. To illustrate, in Vietnam, substantial FDI enterprises are subject to an average income tax ranging from only 2.75% to 5.95% (Phan Duc Hieu, 2023). The implementation of a minimum tax and the elevation of the effective tax rate to 15% would result in a violation of pre-existing commitments in the previous signed contract. Otherwise, if the tax obligations remain unchanged from the previous agreements and the effective tax rate falls below 15%, multinational corporations will be required to remit the tax differential to their home country, where the corporations are headquartered. Consequently, Vietnam will lose a portion of tax revenue obtained through Pillar 2. Some multinational companies may also request Vietnam to compensate for this loss.

Lack of transparency in implementation

Moreover, a study from the Oxford University Centre for Business Taxation by Devereux et al. (2020) extensively analyzes the OECD's Pillar II proposals. Devereux et al. point out that although this proposals are reformed to achieve stated policy objectives: addressing profit shifting, managing tax competition, preventing uncoordinated anti-avoidance measures, and enhancing the allocation of capital and economic growth, it suffers from a notable deficiency in the proposals, noting a "lack of obvious principles." Consequently, with the formal implementation of Pillar Two in Vietnam commencing on January 1, 2024, associated regulations remain unclear, creating challenges for foreign investors in terms of understanding and adherence.

5. Recommendation for Vietnamese government

The implementation of Pillar Two in Vietnam has been expected to bring both opportunities and challenges for the country. That is the reason why a balanced measure is essential for Vietnam in the context of Pillar Two activation.

Firstly, in order to leverage the advantage of the policy, some recommendations are suggested:

- Although Vietnam may be able to lessen the issue of profit shifting by implementing Pillar Two policy, the nation must still improve the tax collection and control system for foreign corporations in order to achieve greater transparency. This can be achieved by requiring multinational corporations to disclose comprehensive information about their global operations, profits, and tax payments; improving financial reporting clearance; and closely examining intra-group transactions to ensure they accurately reflect market conditions.
- Raising the global minimum tax rate leading to higher revenue for Vietnam requires the country to have an effective strategy for allocation of additional revenue. These revenues should be put into strengthening the general business environment and sustainable development such as infrastructure, technological level, regulatory stability, etc. to actively appeal more potential foreign direct investors.
- Continue to emphasize Vietnam's commitment to responsible tax practices and sustainable development. Additionally, highlight the country's dedication to ethical investment environments, aligning with global trends where FDI investors increasingly prioritize sustainability and corporate responsibility.

Secondly, since the policy has made tax incentives no longer be an advantage to attract foreign investors to Vietnam in the near future, the country needs to figure out alternative measures to maintain and boost the condition of foreign direct investment:

- Diversify forms of support other than tax incentives for FDI investors. These support solutions may include supporting the investors in the process of investing in basic infrastructure for production, investing in the formation of fixed assets for industrial production; protecting the environment; providing housing, social insurance and health insurance support for foreign workers; supporting research and development; applying high technology, environmentally friendly technology; etc. To implement the state support program, it is also necessary for Vietnam to allocate financial resources, land, and human resource training to maintain attractiveness and stabilize the investment environment.
- Complete policies other than taxes by maintaining a favorable, stable and safe economic and political environment; reducing the burden of administrative procedure costs; enhancing the transparency of the legal framework in the receipt of foreign direct investment; stabilizing the production costs through raw material, labor, etc. expenses; developing the infrastructure and technological capabilities; focusing on domestic workforce evolvement to create more skilled and qualified personnel; etc.
- Assess and fortify the legal framework surrounding existing investment contracts with FDI investors to account for modifications to tax policies. Clearly describe the procedures for

modifying tax obligations in the event of implementing Pillar Two policy to prevent conflicts with existing FDI investors and guarantee compliance.

- Thoroughly discuss with multinational investors affected by the application of the minimum tax rate for negotiation on adjustments or compensations. Moreover, engage in collaborative efforts to avoid potential problems emerging from violations of pre-existing FDI contracts in terms of cutting of tax incentives due to Pillar Two and changing related regulations; therefore achieving a fair transition in compliance with the new tax legislation.
- Establish a working group including experts with expertise and experience from relevant ministries and branches to analyze and evaluate as well as research so as to enhance the tax system management suitable for final implementation of Pillar Two and thus facilitating comprehensive guidance and support for FDI investors.

6. Conclusion and limitations

Conclusion

As Vietnam integrates further into the global economy, it also faces the challenge of balancing its need to attract foreign direct investment with adhering to international tax regulations. A recent development, Pillar Two's implementation, has introduced a global minimum tax rate, potentially impacting Vietnam's established strategy of offering tax incentives to foreign investors.

The implementation of this tax policy in Vietnam actually presents a complex scenario. While it fosters global tax fairness, it challenges Vietnam's reliance on tax incentives to attract foreign direct investment. Therefore, some recommendations for the Vietnamese government to better navigate the negative aspects and capitalize on new opportunities have been suggested. By adopting the measures of gaining tax revenue through the Qualified Domestic Minimum Top-up Tax, investing in technology for efficient policy execution, and actively engaging in international tax discussions, Vietnam can embrace the opportunities and leverage the advantage of the policy. On the other hand, methods to mitigate challenges are notably mentioned such as diversifying support beyond tax breaks, improving non-tax policies, expanding market access through regional integration, and lastly, emphasizing responsible practices to attract sustainability-focused investors. It can be seen that this approach will not only help Vietnam comply with international tax regulations but also foster a sustainable and attractive investment environment for the future.

Assessing the advantages and disadvantages of Pillar Two in relation to Vietnam's foreign direct investment trends is a complex task influenced by multiple factors. In the long-run, definitely Vietnam, as a member of BEPS, will need to increase its minimum corporate income tax (CIT) rate to 15 percent or more, resulting in greater tax revenues. The global minimum tax policy presents not only such opportunities but also challenges, necessitating Vietnam's proactive participation in the new framework to fully exploit this chance for rapid reform and the attraction of higher-quality foreign direct investment. By actively addressing the challenges associated with implementing Pillar Two in the tax system, Vietnam can secure significant investment and prevent activities that undermine the tax base and facilitate profit shifting in the long term.

Limitations

Our research paper and analysis rely largely on qualitative sources and existing figures to conclude the potential impact on foreign direct investment in Vietnam after the implementation of Pillar Two. Quantitative data with specific models was not used as our method for assessing the impacts of Pillar Two on foreign direct investment trends before and after its implementation in Vietnam since this tax policy has just been officially implemented in Vietnam starting from January 1, 2024, meaning that the data available for use is still limited.

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