

# Impact Of Pillar Two Rules On Related Party Transactions In Multinational Enterprises

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## 01 LEGAL FRAMEWORKS IN VIETNAM

### Resolution No. 107/2023/QH15 of the National Assembly of Vietnam

Starting from 1 January 2024, Vietnam will implement a global minimum tax rate of 15% for multinational enterprises (MNEs) whose consolidated revenue of the ultimate parent entity reached at least EUR 750 million in two out of the four preceding fiscal years. Two key mechanisms will apply:

- ☑ Qualified Domestic Minimum Top-up Tax (QDMTT): Applicable to foreign-invested enterprises operating in Vietnam. This mechanism requires entities to pay a top-up tax to ensure the effective tax rate (ETR) reaches the minimum threshold
- ☑ Under-Taxed Profits Rule
- ☑ Income Inclusion Rule (IIR): Applicable to MNEs headquartered in Vietnam. Under this rule, these enterprises are subject to a minimum tax based on profits earned by their foreign subsidiaries.

### Decree No. 20/2025/ND-CP on Related Party Transactions

- ☑ Revises the definition of related parties and expands the scope to include newly recognized relationships, such as independent branch offices, credit institutions and their subsidiaries, parent companies, or affiliates.
- ☑ Expands the functions and authority of the State Bank of Vietnam regarding transfer pricing oversight.
- ☑ Replaces Appendix I – Information on related party relationships and related party transactions
- ☑ Provides transitional provisions related to the deductibility of interest expenses.

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## 02 IMPLICATIONS OF GLOBAL MINIMUM TAX ON RELATED PARTY TRANSACTIONS

### Reduced Incentives for Profit Shifting to Low-Tax Jurisdictions

- The implementation of top-up taxes significantly diminishes the tax advantage of shifting profits to low-tax jurisdictions, as any under-taxed income will ultimately be subject to a minimum 15% tax rate.
- Adjustment of Transfer Pricing Policies: Enterprises will need to re-evaluate all related party transactions to ensure arm's length pricing, thereby mitigating the risk of top-up taxation.
  - Specifically, transactions with subsidiaries in jurisdictions with ETRs below 15% must be scrutinized to avoid exposure to incremental taxation.
  - Intra-group transactions involving management services, intercompany financing, and intellectual property must be priced with care to maintain an effective tax rate above the minimum threshold.

### Increased Compliance Pressure and System Investment

- Enterprises are expected to invest in upgrading financial and accounting systems, including data analytics capabilities, to support accurate ETR calculations and Pillar Two compliance.
- Digitalization of transfer pricing documentation becomes essential for automated ETR calculation, data storage, and reporting in line with regulatory expectations.
- Year-end transfer pricing adjustments will become more complex and may lead to double taxation risks if jurisdictions fail to align on coordinated implementation.

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### Shift from Tax Optimization to Operational Compliance

- Tax strategies must shift focus from aggressive tax structuring to regulatory compliance and operational efficiency
- Multinational enterprises will need to reassess supply chains, legal entity structures, and operating locations to align with the new rules.
- Substance-based Income Exclusion (SBIE) – relying on tangible assets and qualified payroll expenses – will play a key role in reducing exposure to top-up tax.



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## 03 OPPORTUNITIES AND CHALLENGES FOR VIETNAM



### OPPORTUNITIES



#### Enhanced Transparency

Helps prevent base erosion and profit shifting, fostering a more level and credible investment environment.



#### Global Integration

Aligning with international standards will enhance Vietnam's reputation in the global market



#### Tax Policy Optimization

Encourages a shift in investment attraction from low-tax incentives to sustainable and substantive economic development



### CHALLENGES



#### Reduced FDI Competitiveness

Preferential tax regimes may lose their appeal under the new global tax rules.



#### Increased Compliance Costs

MNEs will need to revise tax strategies and transfer pricing policies, resulting in higher administrative and compliance burdens.



#### Tax Administration Reform Requirements

Vietnam must modernize its tax administration framework to ensure efficient and consistent implementation of Pillar Two regulations.





## Our services

- ✓ Preparation of Transfer Pricing Documentation
- ✓ Transfer Pricing Advisory Services
- ✓ Transfer Pricing Planning and Risk Review
- ✓ Regulatory Compliance Assistance

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