KB Securities VIETNAM

FIRST TO MARKET

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Global minimum tax

Vietnam to impose 15% global minimum tax on multinationals

This morning (November 29), the National Assembly of Vietnam approved a resolution on applying additional corporate income tax following the Global Anti-Base Erosion Rules

— The global minimum tax is an agreement reached by G7 countries in June 2021 to combat multinational corporations from shifting profits to countries with low tax rates to avoid taxes, effective from January 1, 2024, with the participation of 141 countries.

— This resolution takes effect from January 1, 2024.

— Under the resolution, multinationals with total consolidated revenue from €750 million (about USD800 million) or more within two among four consecutive years will be subject to a minimum tax rate of 15%.

About 122 foreign-invested corporations are affected

— The imposition of the global minimum tax mechanism will affect Vietnam when the country is implementing supportive policies with tax incentives given to foreign-invested enterprises (Table 1).

— Through a review by the General Department of Taxation, about 122 foreign corporations investing in Vietnam are affected by the global minimum tax rules. However, if Vietnam does not impose taxes, it means giving up the right to collect the tax difference and those businesses will pay additional taxes to their home country.

— According to delegate Nguyen Quang Huan at the National Assembly session on the afternoon of November 20, raising tax rates will help the State budget increase by VND14.6 trillion per year (tax revenue from the FDI sector reached VND205.930 trillion in 2022) (Fig 1).

The impact of global minimum corporate tax on FDI

— The new mechanism raises concerns about reducing Vietnam's attractiveness to foreign investments as tax exemptions or reductions are a key factor in attracting FDI flows.

— KBSV believes applying the global minimum tax is necessary and suitable for the general context, but Vietnam should also consider adopting other supportive policies in addition to improving the business environment (labor, infrastructure, administrative procedures...). Up to now, the National Assembly continues to meet to discuss appropriate policies and it is likely that there will soon be new policies in the foreseeable future.

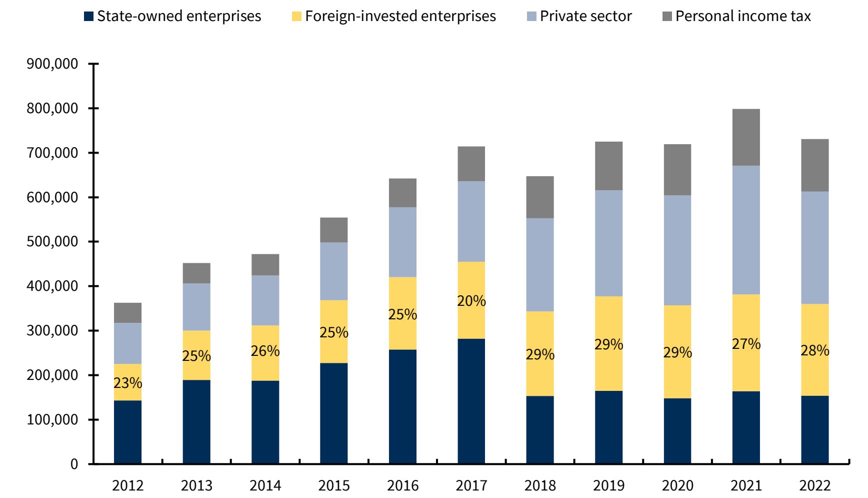
— KBSV assesses that Vietnam will remain an attractive destination for FDI, given its low-cost labor, favorable geographical location, free trade agreements (FTAs) in a fast-growing economic environment and a stable political system. Accordingly, FDI inflows into Vietnam should further support economic growth in the coming years and will also be a growth driver for industrial park developers.

Table 1. Vietnam – Tax incentives

Tax incentives	Beneficiaries
Tax exemption for 2 years, 50% reduction of payable tax amounts for 4 subsequent years	New investment projects in areas with difficult socio-economic conditions
Tax exemption for 4 years, 50% reduction of payable tax amounts for 5 subsequent years	New investment projects in the field of socialization
Preferential tax rate of 10% for 15 years + tax exemption for 4 years, 50% reduction of payable tax amounts for 9 subsequent years	New investment projects in areas with especially difficult socio-economic conditions, in economic zones, high-tech zones, software production, scientific research and technological development

Source: KB Securities Vietnam

Fig 1.Vietnam – State budget revenue breakdown (VNDbn)



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Investment ratings & definitions

Investment Ratings for Stocks
(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors
(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market