THE GLOBAL MINIMUM TAX FRAMEWORK: IMPLICATIONS FOR INTERNATIONAL INVESTMENT AND VIETNAM'S STRATEGIC POLICY RESPONSE

PhD. Do Phuong Huyen*

Abstract: ***This study examines the implementation and implications of the Global Minimum Tax (GMT), specifically the Pillar Two framework designed to establish a 15% minimum effective tax rate for multinational enterprises with annual revenues exceeding EUR 750 million. For decades, the global "race to the bottom" in corporate taxation and aggressive profit shifting to tax havens have cost governments between USD 500-600 billion annually in lost revenue. The GMT framework employs a coordinated system of mechanisms, including the Qualified Domestic Minimum Top-up Tax, the Income Inclusion Rule, and the Undertaxed Payments Rule, to ensure that under-taxed profits are captured either by the host country or the parent jurisdiction. By analyzing the shift toward substance-based investment and the erosion of tax haven advantages, this study highlights how the policy encourages real economic activity over artificial profit allocation. Furthermore, the study explores the case of Vietnam, which implemented the GMT in 2024 and is now transitioning its investment strategy from traditional tax incentives toward non-tax support measures, such as infrastructure and R&D subsidies, to maintain its competitiveness in a standardized global tax environment.***

• Keywords: *global minimum tax, pillar two, tax havens, foreign direct investment, Vietnam.*

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1. Introduction

For decades, multinational enterprises (MNEs) have exploited differences in tax rates across countries to shift profits to jurisdictions with very low or zero tax rates, commonly referred to as "tax havens." As a result, substantial tax revenues have been lost; tax havens are estimated to cost governments worldwide around USD 500-600 billion annually in corporate tax revenues. Low-income economies suffer particularly severe losses, about USD 200 billion, a figure that even exceeds the total amount of global official development assistance each year (Shaxson, 2019).

This "race to the bottom" in corporate tax rates, driven by countries competing to attract investment, has created an uneven playing field in which large multinational corporations with hundreds of foreign subsidiaries can pay significantly less tax than domestic firms. In response to this situation, the international community reached a historic agreement to establish a global floor for corporate income taxation.

In 2021, 137 countries agreed on the Two-Pillar global tax reform (Gaspar, Hebous & Mauro, 2022). Pillar Two - the Global Minimum Tax requires large multinational enterprises to face a minimum effective tax rate of 15% on income in every jurisdiction where they operate. The objective of this policy is to set a floor for tax competition and reduce incentives for profit shifting to low-tax jurisdictions, thereby preventing the global race to the bottom in corporate taxation.

Earlier estimates by the OECD suggested that implementing a 15% global minimum tax could generate around USD 150 billion in additional tax revenue annually worldwide. More recent estimates in 2023 raised this figure to approximately USD 220 billion per year, equivalent to 9% of total global corporate income tax revenue (OECD, 2023). Furthermore, ending aggressive tax competition is expected to increase tax revenues by about 8%, as firms would no longer have strong incentives to avoid taxes.

2. Mechanism of the global minimum tax

The Global Minimum Tax is designed to ensure that large multinational enterprises pay at least 15% tax on income in every country where they operate. Specifically, the rules under Pillar Two, also known as the Global Anti-Base Erosion (GloBE) rules, require multinational groups within the scope of the regime (those with global consolidated revenues of at least EUR 750 million) to calculate their income and taxes paid on a jurisdiction-by-jurisdiction basis.

* *International School, Vietnam National University, Hanoi; email: dphuyen@vnu.edu.vn*

The group then determines the effective tax rate (ETR) in each jurisdiction. If the effective tax rate in any jurisdiction is below 15%, the multinational enterprise must pay a top-up tax to bring the tax level up to the minimum threshold (OECD, 2024).

The income subject to this calculation is adjusted to exclude a portion known as the "substance-based income exclusion," which corresponds to a certain percentage of tangible assets and payroll located in that jurisdiction. This provision aims to exclude profits linked to genuine economic activity from additional taxation, thereby allowing countries to retain some flexibility in competing to attract real investment (Azémar & Giroud, 2023).

The global minimum tax established under the OECD Inclusive Framework's Pillar Two operates through three interrelated mechanisms that determine how top-up tax is allocated across jurisdictions. These mechanisms are applied in a specific order to ensure that MNEs are subject to a minimum effective tax rate of 15% on their global profits.

2.1. Qualified Domestic Minimum Top-up Tax (QDMTT)

The Qualified Domestic Minimum Top-up Tax (QDMTT) grants the jurisdiction in which low-taxed income arises the primary right to collect the additional tax necessary to reach the 15% minimum rate. Under this mechanism, if a country adopts a QDMTT, subsidiaries of multinational enterprises operating within that jurisdiction must pay any required top-up tax locally. This design allows the source country to retain the associated tax revenue rather than allowing other jurisdictions to collect it under the international rules.

2.2. Income Inclusion Rule (IIR)

If the jurisdiction where the income arises does not implement a QDMTT, the Income Inclusion Rule (IIR) applies. Under the IIR, the jurisdiction in which the ultimate parent entity is located obtains the right to impose a top-up tax on low-taxed income earned by its foreign subsidiaries. Where the ultimate parent jurisdiction has not adopted the IIR, the taxing right moves down the ownership chain to the next intermediate parent entity located in a jurisdiction that applies the rule. Through this mechanism, the headquarters country can ensure that profits earned abroad through low-tax regimes are subject to the global minimum rate.

2.3. Undertaxed Profits Rule (UTPR)

The Undertaxed Profits Rule (UTPR) functions as a backstop mechanism to ensure that low-taxed income is ultimately subject to the minimum tax. If the income has not been taxed under the QDMTT in the source jurisdiction and is not captured by the IIR because the parent jurisdiction has not implemented the rule, other jurisdictions within the multinational group that have adopted the UTPR may collect the remaining top-up tax. In practice, this is typically achieved through adjustments such as the denial of deductions or other mechanisms that increase the tax liability of entities within the group operating in those jurisdictions.

Together, these three mechanisms, QDMTT, IIR, and UTPR, create a coordinated framework that ensures multinational enterprises cannot avoid the 15% global minimum tax by shifting profits to low-tax jurisdictions. By allocating taxing rights across multiple jurisdictions in a hierarchical order, the Pillar Two rules aim to limit base erosion and profit shifting while strengthening the stability and fairness of the international corporate tax system.

3. Global impacts of the global minimum Tax

3.1. Effects on tax havens and low-tax jurisdictions

One of the most visible impacts of the global minimum tax is the erosion of the advantages previously enjoyed by tax havens, which are jurisdictions that impose extremely low corporate tax rates to attract profits shifted from elsewhere.

Previously, multinational enterprises frequently shifted large portions of their accounting profits to offshore financial centers such as Bermuda, the Cayman Islands, and the British Virgin Islands in order to minimize tax liabilities. As a result, these jurisdictions received substantial volumes of foreign investment in the form of booked financial flows rather than real economic activity.

With the introduction of a 15% minimum tax floor, these incentives largely disappear because profits located in tax havens will automatically be subject to top-up taxes elsewhere if the tax haven itself does not impose sufficient taxation (United Nations Committee of Experts on International Cooperation in Tax Matters, 2025). In practical terms, multinational corporations no longer gain a tax advantage from shifting profits to jurisdictions with tax rates below 15%, since they will ultimately have to pay the difference to some government.

Low-tax countries have begun adjusting their policies in response. For example, Ireland, long known for its 12.5% corporate tax rate, has agreed to raise the rate to 15% for large multinational firms while maintaining the lower rate for smaller companies (Dillon, de Bruijn & Smyth, 2024). Financial hubs such as Singapore and Hong Kong, with corporate tax rates around 17%, are also designing domestic minimum taxes to ensure that

any top-up taxes are collected locally rather than by foreign governments (Huld, 2026).

Pure tax havens with 0% corporate tax rates, such as Bermuda or the Cayman Islands, generally have not joined the agreement. However, most large multinational enterprises have parent or subsidiary companies in countries that have adopted the new rules. Consequently, the zero-tax advantage of these jurisdictions will largely be neutralized, as other countries will collect the top-up tax.

According to UNCTAD, tax havens and low-tax jurisdictions will therefore become significantly less attractive destinations for multinational capital flows. The structure of international investment may shift fundamentally as artificial profit flows leave jurisdictions that rely primarily on tax advantages. UNCTAD predicts that implementing the global minimum tax will lead to a reallocation of investment, allowing traditionally high-tax countries to attract more foreign direct investment (FDI) because the tax gap between them and tax havens has narrowed (Azémar & Giroud, 2023).

At the same time, offshore financial centers may lose their unique advantage, resulting in declines in "headquarter-type" investment flows. UNCTAD estimates that Africa and Asia could benefit the most, with FDI increasing by 2.4% and 1.7% respectively compared with a scenario without the global minimum tax.

3.2. Effects on investment flows and profit shifting

Overall, the Global Minimum Tax affects both the scale and direction of international investment flows.

First, regarding the overall level of global investment, higher tax obligations may slightly reduce the after-tax profitability of multinational enterprises, which could marginally affect investment decisions. UNCTAD estimates that the total tax burden of multinational firms worldwide could increase by around 14% due to the global minimum tax. This increase includes both the direct effect of the 15% top-up tax and the indirect effect of reduced tax competition, as countries raise their tax rates closer to the minimum threshold.

Considering only the direct effect of the minimum tax, UNCTAD predicts that global FDI flows could decline by approximately 2% compared to a scenario without the reform. However, this reduction is considered relatively modest (UNCTAD, 2022). Moreover, the report suggests that greater tax certainty and transparency under the new system may partially offset this decline, as a more stable and predictable global tax environment can strengthen long-term investor confidence (Azémar & Giroud, 2023).

Second, in terms of the direction and allocation of foreign direct investment, the global minimum tax is expected to reshape multinational investment strategies. Previously, companies could locate production assets in one country with relatively high taxes while shifting profits on paper to another jurisdiction with very low taxes in order to minimize their tax burden.

Under the new system, since the tax advantage of low-tax jurisdictions is greatly reduced, companies have stronger incentives to locate real economic activities where value is created. Firms may also seek to benefit from the substance-based income exclusion, which encourages them to increase tangible assets and employment in strategic locations in order to reduce their exposure to top-up taxes.

This shift discourages the use of "shell entities" or purely paper-based structures designed for profit shifting and instead promotes genuine productive investment. As emphasized by the OECD, a central objective of Pillar Two is to reduce incentives for cross-border profit shifting and encourage investment decisions based on real economic considerations rather than tax differentials (OECD, 2020).

4. Case study of technology multinationals: Alphabet

The case of large technology multinationals illustrates the significant implications of the Global Minimum Tax framework. One prominent example is Alphabet Inc., which historically relied on sophisticated international tax planning strategies to minimize its global tax liabilities. Prior to 2015, Alphabet employed the "Double Irish with Dutch Sandwich" structure, enabling the company to shift substantial portions of its global profits through Ireland and Bermuda. This arrangement allowed the firm to achieve an effective foreign tax rate of approximately 2.4%, resulting in billions of dollars in tax savings (Bateman, 2023). Between 2007 and 2009 alone, Alphabet is estimated to have saved approximately USD 3.1 billion through these mechanisms.

Following the phase-out of the Double Irish structure in 2015, the company adjusted its tax strategy by utilizing Ireland's patent box regime and intangible capital allowances, which allowed income derived from intellectual property (IP) to be taxed at rates as low as 10% or even lower (EY, 2023). Similar strategies were employed by other major U.S. technology firms, including Meta Platforms and Apple Inc.. Reports indicate that such practices enabled companies like Google and Apple to shift roughly USD 20 billion in profits out of higher-tax jurisdictions in 2015 alone.

The implementation of Pillar Two under the OECD/G20 Inclusive Framework significantly alters the effectiveness of these arrangements. The introduction of a 15% global minimum effective tax rate reduces the incentive to channel profits into low-tax jurisdictions. For example, if an Irish subsidiary is taxed at 10%, the rules require a 5% top-up tax. If Ireland adopts a QDMTT, it would collect this additional tax domestically; otherwise, the tax would be collected by the parent jurisdiction or another relevant jurisdiction under the Income Inclusion Rule.

Consequently, the overall effective tax burden on foreign profits for companies such as Alphabet is expected to increase from previously low single-digit levels toward the 15% global minimum. This shift may require multinational enterprises to reconsider aspects of their international tax planning strategies, including the location of intellectual property, profit allocation structures, and the geographic distribution of economic activities. While certain preferential regimes remain legally available, their advantages are substantially reduced for firms subject to Pillar Two rules (EY, 2023).

5. Vietnam's legal framework and impact

Vietnam represents a notable example of a developing country that must adjust its investment attraction policies in the era of the global minimum tax. With a development strategy heavily reliant on attracting FDI, Vietnam has long used corporate income tax (CIT) incentives as a key instrument to attract large multinational corporations. The statutory CIT rate in Vietnam is currently 20%; however, many large-scale FDI projects, particularly those located in high-tech zones and special economic zones, have historically benefited from preferential tax rates of 0%, 5%, or 10% during their first 5-15 years of operation. These incentives have contributed significantly to Vietnam's ability to rank among the world's top 20 FDI destinations in 2020, with annual disbursed FDI reaching approximately USD 30 billion during the 2020-2022 period (Thanh Hoa, 2023). Nevertheless, the emergence of the global minimum tax has fundamentally altered the policy environment for Vietnam.

In June 2021, Vietnam joined all other members of the OECD Inclusive Framework in endorsing the global minimum tax agreement. Subsequently, the government began actively studying ways to incorporate the rules into domestic legislation. During the 6th session of the 15th National Assembly on 29 November 2023, Vietnam's National Assembly approved Resolution No. 107/2023/QH15 on the implementation of the global minimum tax effective from 1 January 2024, with more than 93.5% of representatives voting in favor (Kim Chi, 2023). Under this resolution, Vietnam will implement a top-up corporate income tax in accordance with the global anti-base erosion rules, applying a minimum effective tax rate of 15% to multinational enterprise groups with consolidated revenue exceeding EUR 750 million in at least two of the four preceding fiscal years. The regulation excludes certain entities such as government bodies, non-profit organizations, and pension funds, in line with the OECD's exclusion mechanisms (National Assembly of the Socialist Republic of Vietnam, 2023).

According to Vietnamese tax authorities, approximately 619 MNEs, comprising 1,017 subsidiaries operating in Vietnam, reported consolidated revenues exceeding €750 million in 2021. Among these, it is estimated that around 112 groups will be subject to additional top-up tax obligations under the new global minimum tax rules (Vietnam News, 2023). The remaining firms either already maintain an effective tax rate of at least 15% or do not meet other qualifying conditions under the Pillar Two framework. Many of the entities affected by the reform are large foreign-invested enterprises that previously benefited from preferential tax incentives. Major multinational corporations such as Samsung Electronics, Intel, and LG Electronics have historically received preferential corporate income tax rates for their large-scale manufacturing projects in Vietnam, in some cases resulting in effective tax rates as low as approximately 12.3% (Vietnam News, 2023). Under the Pillar Two framework, however, the effective tax rate applied to these enterprises will increase to the 15% global minimum threshold. This change is expected to raise their overall tax liabilities while simultaneously increasing Vietnam's state tax revenues.

Vietnamese policymakers view the reform as an important step toward aligning the country's tax system with international standards and strengthening the domestic tax base. According to PwC Vietnam (2025), the implementation of the global minimum tax is also expected to contribute to a more level competitive environment between domestic firms, typically subject to the standard 20% corporate income tax rate, and foreign investors that have historically benefited from significantly lower effective tax rates.

The implementation of the global minimum tax will inevitably lead to significant changes in Vietnam's investment attraction policies. First, traditional CIT incentives will lose much of their effectiveness for companies subject to the EUR 750 million threshold (OECD, 2022). FDI projects that previously benefited from tax holidays will now effectively face the 15% minimum tax rate, with the difference collected by the Vietnamese government rather than remaining with the

investor. This shift directly affects the benefits enjoyed by foreign investors during the incentive period and could influence the overall investment climate. Many large investors chose Vietnam partly because its tax incentive packages significantly reduced operating costs. If those incentives become ineffective, firms may reconsider expansion decisions or request alternative forms of government support (Hoi et al., 2024). Representatives of Samsung in Vietnam have previously expressed concern that, without appropriate policy responses, the global minimum tax could create additional challenges for FDI enterprises and have urged the government to implement support measures to maintain investment competitiveness.

Recognizing these challenges, the Vietnamese government has begun exploring new incentive policies that comply with the global minimum tax framework while maintaining the country's attractiveness to major investors. The Ministry of Finance has noted that many countries have already introduced policy responses to preserve competitiveness under the new regime. Thailand, for example, is reportedly developing a policy package that combines domestic tax measures with additional financial support such as subsidies for infrastructure development and electricity cost support for businesses. India, meanwhile, has introduced a Production-Linked Incentive program that provides direct financial rewards, thereby offering subsidies rather than tax reductions (RSM India, 2025). These developments illustrate a broader shift toward non-tax incentives as countries continue competing for global investment within the new tax framework.

For Vietnam, policy discussions have similarly focused on providing direct or indirect financial support to businesses without violating global minimum tax rules, while ensuring compliance with international standards and maintaining transparency. Deputy Director General of the General Department of Taxation Dang Ngoc Minh has suggested that the government could consider supporting FDI enterprises through measures such as infrastructure investment support, assistance with fixed asset investment, funding for environmental protection projects, support for worker housing, subsidies for social insurance and healthcare contributions, and incentives for research and development and technological innovation (Vietnam News, 2023). These measures aim to improve the real investment environment without relying on reductions in statutory tax rates. Naturally, implementing such support programs will require corresponding financial resources from the state budget or development funds; however, they could help sustain Vietnam's investment attractiveness while improving the overall quality of incoming FDI projects. The Vietnamese government has therefore tasked relevant ministries with conducting a comprehensive review of the current system of investment incentives, both tax and non-tax, to propose suitable adjustments in light of the new global tax environment.

Conclusion

The implementation of the Global Minimum Tax represents a historic shift in international taxation, effectively neutralizing the core advantages of tax havens and ending the decades-long "race to the bottom". By mandating a 15% floor, the GloBE rules significantly reduce the incentives for MNEs to utilize "shell entities" or paper-based structures, instead promoting investment decisions based on genuine economic substance and value creation. As demonstrated by the case of Alphabet, technology giants that once achieved single-digit effective tax rates must now prepare for increased tax liabilities approaching the 15% threshold.

For developing economies like Vietnam, the reform marks a critical turning point where traditional corporate income tax incentives are no longer sufficient to attract foreign direct investment. To remain a top investment destination, nations must now focus on improving the real investment environment through non-tax measures, including infrastructure development, labor support, and technological innovation incentives. Ultimately, while the GMT may cause a modest short-term decline in global FDI flows, it is expected to generate approximately USD 220 billion in additional annual revenue and foster a more transparent, stable, and equitable global financial landscape.

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