Global Minimum Tax insights

Episode 04: Implication of Pillar Two on Transfer Pricing

April 2025

Introduction and overview

- On 29 November 2023, the National Assembly of Vietnam has issued Resolution No. 107/2023/QH15 ("**Resolution 107**") on the application of additional Corporate Income Tax ("**CIT**") in accordance with the Global Anti-Base Erosion ("**GloBE**") Rules. Currently, the General Department of Taxation is developing and finalizing the Decree guiding a number of articles of Resolution 107.
- The OECD guidelines and Resolution 107 include provisions on Transitional CbCR Safe Harbour ("**TCSH**") based on Qualified Country-by-Country Reporting ("**Qualified CbCR**"). Previously seen as a compliance exercise, **CbCR now impacts GloBE compliance during the transition**. Since GloBE calculation relies on Qualified CbCR data, its quality and proactive availability are crucial.
- This publication is provided to help multinational enterprises ("**MNE**") Groups (including Vietnamese MNE Groups having foreign investment and foreign MNE Groups having constituent entities ("**CEs**") in Vietnam) to understand the main principles of Transfer Pricing ("**TP**") implication of Pillar Two in general and during transitional period specifically in accordance with the provisions of Resolution 107 and the forthcoming Decree.

Our recommendation

Deloitte recommends critical actions regarding TP implications on Pillar Two matters as follows:

Qualified CbCR preparation

- ✓ Be aware of the data source used by the ultimate parent entity ("**UPE**") to prepare the Qualified CbCR to assess whether the Group CbCR meets criteria to be considered "Qualified CbCR".
- ✓ Evaluate the availability and reliability of the data points used to support the TCSH qualification.

Suggested timeline for CbCR readiness

- ✓ Coordinate and maintain close follow-up with the UPE to ensure the CbCR is made available as early as practicable, ideally at least three months prior to the TCSH filing deadline, to allow adequate time for a thorough TCSH assessment.

Professionals assistance

- ✓ Engage with subject matter experts to obtain professional advice and support on tax, TP, and Pillar Two matters, as well as throughout the entire process of TCSH assessment and application.

Country-by-Country Report

What is CbCR?

CbCR, one of three-tier **TP documentation**, needs to be filed by MNEs operating in multiple countries with consolidated revenue threshold:

According to OECD TP Guidelines 2022	According to Decree No. 132/2020/ND-CP
From **EUR 750 million** (or equivalent in local currency), in the previous fiscal year	At least **VND 18 thousand billion** for a taxpayer being an ultimate parent company in Vietnam

Role of CbCR?

Before GMT implementation

CbCR is one of the TP documentation packages

Before GMT regulations, CbCR is one of the TP documentation packages, which mainly serves compliance purposes.

CbCR can be used to assess potential TP risk of local taxpayers

Information in CbCR such as total revenue, profit margin, tax rate, number of employees, of Constituent Entities might be used to assess potential TP risks of local taxpayer.

Role of CbCR

After GMT regulation was issued

Qualified CbCR is used to test TCSH

TCSH

A short-term measure to reduce the compliance burden on MNEs during the transition period.

Rely on Qualified CbCR data for calculating MNE's revenue and income on a jurisdictional basis

Table 1: Overview of allocation of income, taxes and business activities by tax jurisdiction

Tax Jurisdiction	Revenue			Profit (Loss) before Income Tax	Income Tax paid (On cash basis)	Income Tax Accrued – Current Year	Stated Capital	Accumulated Earnings	Number of Employees	Tangible Assets other than Cash and Cash Equivalents
	Unrelated party	Related party	Total							

Table 2: List of all the Constituent Entities of the MNE group included in each aggregation per tax jurisdiction

Tax Jurisdiction	Constituent Entities Resident in the Tax Jurisdiction	Tax Jurisdiction of Organisation or Incorporation if Different from Tax Jurisdiction of Residence	Main Business Activity(ies)											
			Research and Development	Holding or Managing Intellectual Property	Purchasing or Procurement	Manufacturing or Production	Sales, Marketing or Distribution	Administration, Management or Support Services	Provision of Services to Unrelated Parties	Internal Group Finance	Regulated Financial Services	Insurance	Dormant	Others

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- ✓ GloBE Rules and the rules for CbCR have a similar scope (**EUR 750 million**).
- ✓ The threshold for filing a CbCR is assessed on an annual fiscal year basis, and the GloBE Rules apply a threshold test in at least two of the preceding four fiscal years.

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- ✓ The rules for identifying CEs and allocating income to a jurisdiction under CbCR are broadly in line with those in the GloBE Rules.

Given the context of GMT introduction, **how can CbCR be applied for GMT purposes during transitional period?**

Qualified Country-by-Country Report

What is Qualified CbCR?

Qualified CbCR

- A report prepared and filed using **Qualified Financial Statements.**

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Qualified Financial Statements

1) **Financial accounts** used to prepare the Consolidated FS of the UPE;

2) **Separate Financial Statements ("FS") of each CE,** provided that they are prepared in accordance with either:
   - *Acceptable Financial Accounting Standard; or*
   - *Authorised Financial Accounting Standard, provided that the information contained in such statements is reliable.*

3) **Financial accounts** used for preparation of the MNE Group's CbCR in case of a CE that is not consolidated into the MNE Group's Consolidated FS solely due to size or materiality grounds.

Differences in entities reported in CbCR for TP purpose and entities apply TCSH

The entities reported in CbCR and entities eligible for TCSH have some differences, as some requires special conditions or treatments as below:

	Entities reported in CbCR for transfer pricing purpose under OECD TP Guidelines 2022	Entities apply TCSH
Entities that are: (a) included in the Consolidated FS of the UPE; and (b) excluded due to size or materiality grounds	✓	✓
Permanent establishments ("PE") (*)	✓	✓
Joint ventures and its subsidiaries (**)		✓
Held – for – sale (entities excluded from Consolidated FS of the UPE being held for sale and not being a part of core business operation)		✓

(*) Regarding OECD BEPS Action 13 Final Report, the MNE Group may determine the portion of the Main Entity's Total Revenue and Profit Before Tax that is attributable to the PE using separate FS prepared by the Main Entity for the PE for financial reporting, regulatory, tax reporting, or internal management control purposes.

(**) This entity is subject to special treatment under GloBE rules (kindly refer to next page for details).

Qualified Country-by-Country Report (Cont.)

TCSH Tests

During transitional period, three CbCR – based tests are used to determine the TCSH eligibility of a jurisdiction:

Test		Component 1		Component 2
De minimis test • Total revenue < EUR 10m • PBT < EUR 1m / Loss	=	Profit (Loss) before Income tax ("PBT") Exclude: Net Unrealized FV Loss in Ownership Interest > EUR 50m *Source: Qualified CbCR*	+	Total revenue *Source: Qualified CbCR*
Simplified ETR test Covered tax / PBT ≥ • 15% (FY 2023 & 2024) • 16% (FY 2025) • 17% (FY 2026)	=	Profit (Loss) before Income tax Exclude: Net Unrealized FV Loss in Ownership Interest > EUR 50m *Source: Qualified CbCR*	+	Simplified covered taxes Aggregate Simplified Covered Taxes *Source: Tax expenses as recorded in financial account*
Routine profit test • PBT ≤ SBIE	=	Profit (Loss) before Income tax Exclude: Net Unrealized FV Loss in Ownership Interest > EUR 50m *Source: Qualified CbCR*	+	Substance – based income exclusion: • Eligible Payroll Costs • Eligible Tangible Assets *Source: GloBE computation*

(*) Special treatment under GloBE during TCSH

Joint ventures and joint venture subsidiaries	UPE jurisdiction where UPE is a flow-through entity	Net unrealized fair value loss	Investment entities
Shall apply TCSH as if they were CEs of a separate MNE Group, using data reported on Qualified FS	Shall not apply, unless all the Ownership Interests in the UPE are held by the Qualified Persons	Shall be excluded from profit (loss) before income tax if exceeds EUR 50 million in a jurisdiction	Investment entities separately apply the GloBE Rules; however, it does not affect the application of TCSH in the investment entities jurisdiction and the jurisdiction of the investment entities owner

(*) TCSH does not apply to:

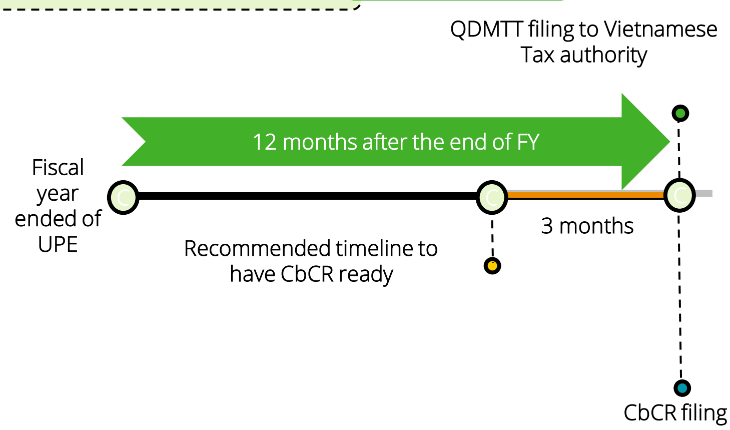
1. Stateless CEs
2. Multi-parented MNE where a single Qualified CbCR does not include information of the combined groups
3. Jurisdictions with CEs that have elected to be subject to Eligible Distribution Tax System
4. Jurisdictions that have not applied TCSH in the previous year ("Once out, always out")

Where **any of the three CbCR – based tests** is satisfied, Pillar Two top – up tax for the jurisdiction for a year will be **zero.**

Key takeaway

Filing timeline concerns

- The filing timeline for Qualified Domestic Minimum Top-up Tax ("QDMTT") in Vietnam is **12 months after the end of UPE's fiscal year.** This would cause challenges and difficulties to the taxpayers since any delay in CbCR preparation could impact the **timeliness and accuracy** of GMT assessment (for QDMTT filling and TCSH identification).
- Taxpayers should **proactively align their internal reporting timelines**, work closely with UPE to ensure that CbCR data is available as soon as possible **(recommended three months)** before the QDMTT filing deadline.



Vietnam Tax Firm of the Year (2021 – 2024)
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