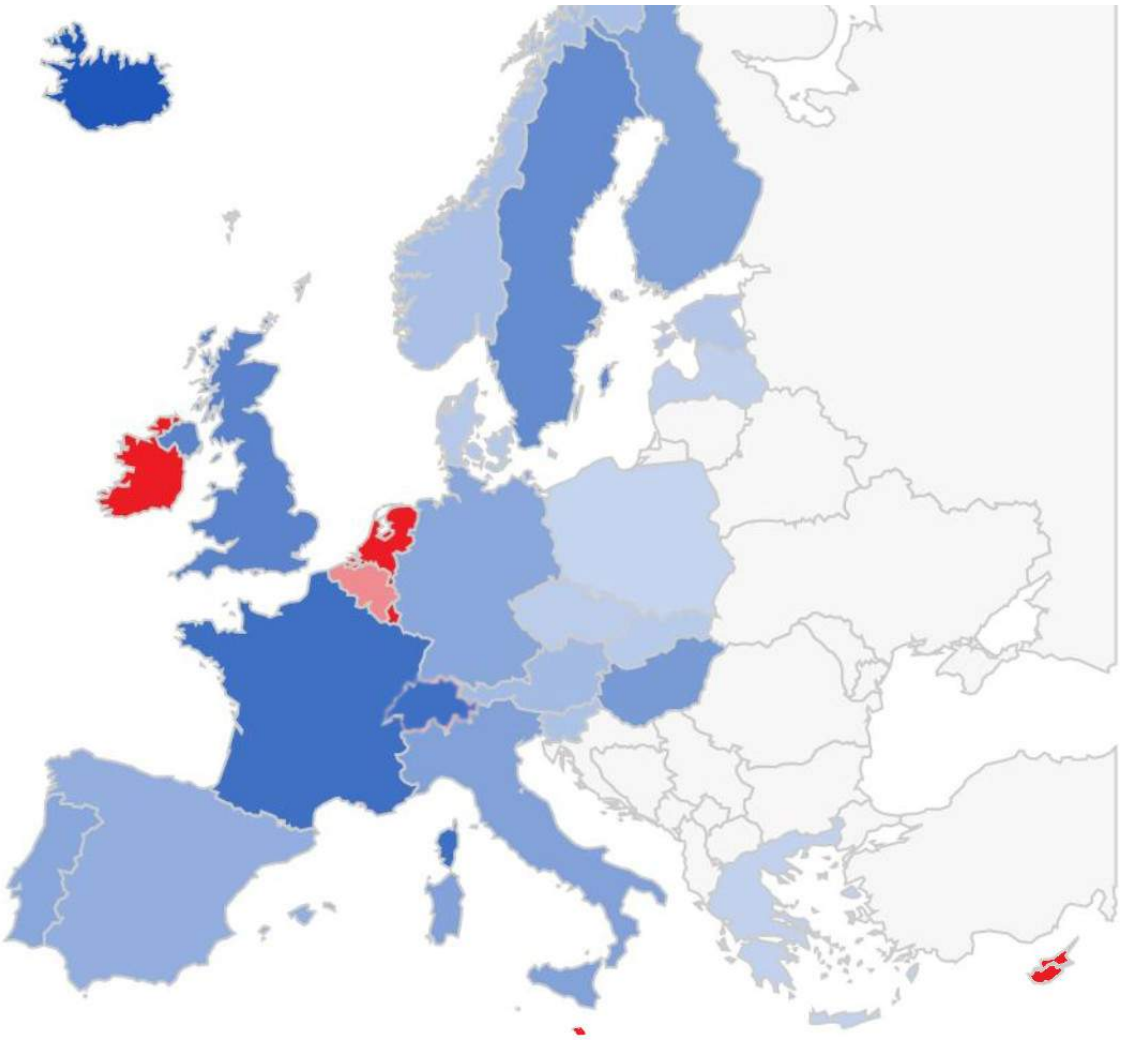
Taxation Concept in the Three Seas Region



Commentary on the Map – Current Profit Flows in the Three Seas Region

The map illustrates how corporate profits generated in the Three Seas region are currently distributed. Despite economic activity occurring in countries such as Poland, Czechia, Slovakia, Hungary, and others, a significant portion of the resulting profits **flows out of the region**.

Key observations:

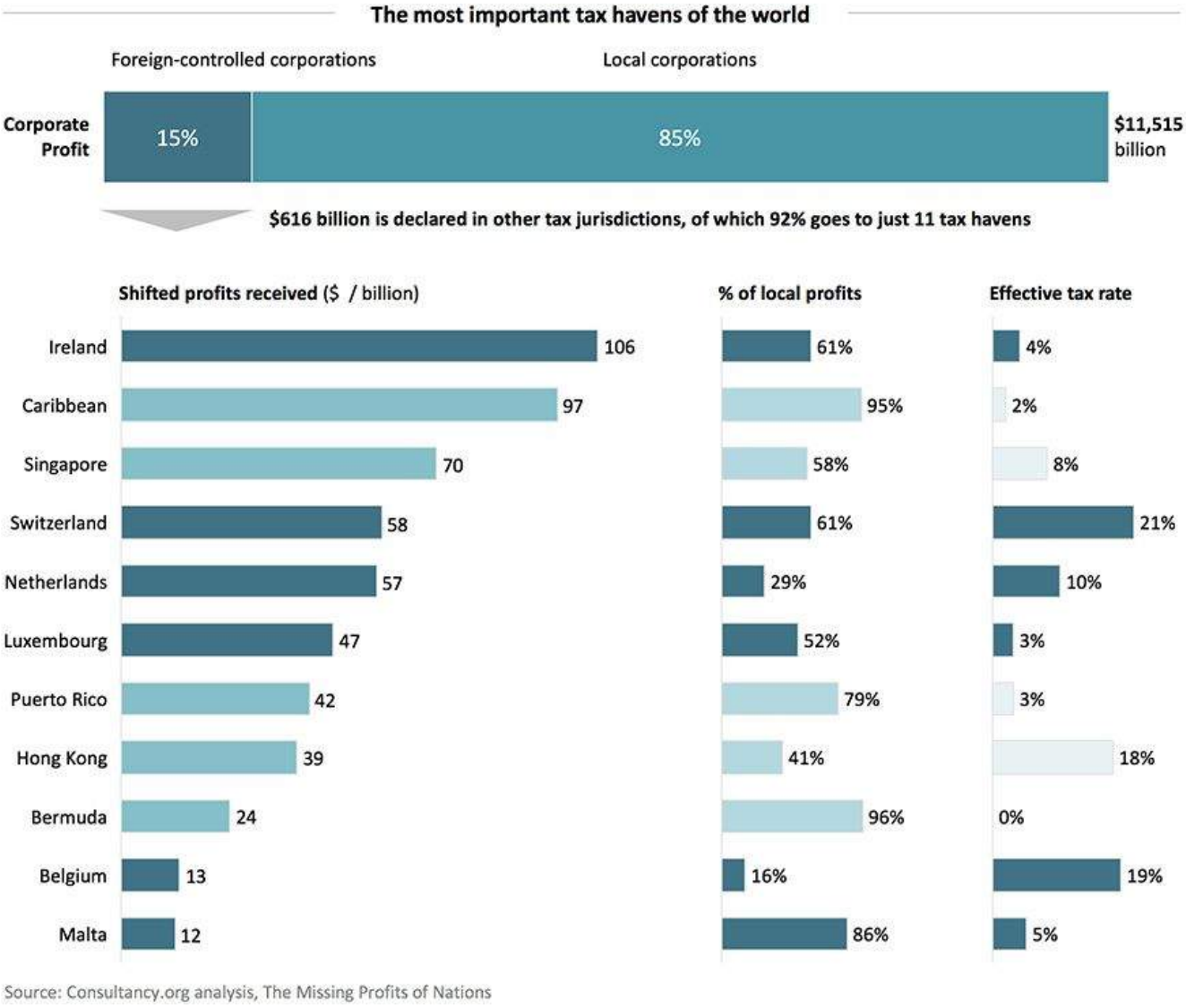
1. **Profits are concentrated in a few Western European or low-tax jurisdictions** – most notably Ireland, the Netherlands, Luxembourg, and Switzerland.

2. **Headquarters location dominates reported profits** – even if the production, employees, or customers are located in the Three Seas states, the profits are often booked in the country where the parent company is registered.

3. **Impact on local tax revenue** – this means that countries within the Three Seas region receive only a fraction of the potential corporate tax revenue, even though infrastructure, labor, and environmental resources are heavily utilized locally.

4. **Digital services and intellectual property** – particularly affected are revenues from advertising, software, and licenses, which are usually booked in centralized European hubs rather than in the country where the service is consumed or developed.

Conclusion:
The current system creates a mismatch between **where economic activity occurs** and **where profits are taxed**, leading to substantial leakage of corporate tax revenue from the Three Seas region. A destination-based taxation system, as proposed, would ensure that profits are taxed **where employees work, products are made, and customers are served**, keeping tax revenues aligned with real economic contributions.



Source: Consultancy.org analysis, The Missing Profits of Nations

LAW

Unitary taxation / Common Consolidated Corporate Tax Base – CCCTB

on Taxation Based on Economic Activity Location

Motto:
This law aims to prevent the extraction of profits from the country where economic activity is conducted, where it utilizes infrastructure and impacts the environment.

§1

Subject of the Law

1. This law regulates the method of determining tax obligations for legal entities operating in multiple countries.

2. The purpose of this law is to ensure that profits from business activities are taxed in the countries where real economic activity occurs, particularly:
   a) where labor is performed,
   b) where customers are located,
   c) where infrastructure and assets are utilized.

§2

Definitions

For the purposes of this law:

1. Multinational enterprise
A legal entity or group of entities conducting economic activity in multiple countries.

2. Economic activity
Any activity that generates value through labor, production, sales, or provision of services.

3. Market jurisdiction
The country where the customer is located or where the sale of goods or services occurs.

4. Production jurisdiction
The country where the enterprise employs staff or operates production facilities.

§3

Taxation Principle

1. The profit of a multinational enterprise shall be allocated among countries according to the scope of economic activity performed in each country.

2. The location of the company's headquarters or registration has no effect on profit allocation under this law.

3. Each country has the right to tax the portion of profit corresponding to economic activity conducted within its territory.

§4

Profit Allocation Calculation

1. The total consolidated profit of the enterprise shall be divided among countries according to the following factors:
   a) share of employees
   b) share of sales
   c) share of physical assets

2. The weighting of these factors is as follows:

- Employees: 40 %

- Sales: 40 %

- Assets: 20 %

3. The profit portion allocated to a country is calculated as a weighted average of these factors.

§5

Determining the Place of Sale

1. Sales are attributed to the country in which the customer is located.

2. For digital services, sales are attributed to the country where the user or service recipient is located.

3. For advertising services, sales are attributed to the country where the advertiser is located.

§6

Requirement for Local Economic Presence

1. A multinational enterprise conducting economic activity in a country is required to establish a local accounting unit.

2. The enterprise must maintain records of:

    - the number of employees in the country
    - sales generated in the country
    - the value of assets utilized in the country

3. These records are used to determine the portion of profit allocated under this law.

§7

Taxation

1. The portion of profit allocated to a country is subject to taxation under that country's tax regulations.

2. After the tax is paid locally, the remaining profit may be freely transferred to the parent company or another country.

§8

Prevention of Double Taxation

1. Profit allocated under this law shall not be taxed more than once.

2. Countries applying this system recognize the profit allocation calculated according to the standard formula.

§9

Minimum Economic Presence

An enterprise is considered economically present in a country if it meets at least one of the following conditions:

- employs workers in the country
- conducts sales in the country

- utilizes infrastructure or production facilities in the country

§10

Purpose of the Law

The purpose of this law is to:

1. ensure fair distribution of tax revenue among countries,
2. prevent profit shifting based solely on company headquarters location,
3. maintain free trade and capital movement while reflecting actual economic activity.

Core Principle in One Sentence:

> A company may be headquartered anywhere, but for tax purposes its profits are allocated to countries according to where people work and where customers are located.

Current Reality

- Multinational companies can **manipulate internal prices (transfer pricing)**.
- A Czech factory sells to its parent company at a **low internal price** → the local profit is small → the tax paid is low.
- This “profit outflow” is **legal under the current system**, as long as the pricing is justified according to OECD rules.
- The Czech Republic currently **has no mechanism to require that tax be paid on the real economic value**, rather than just the accounting profit.