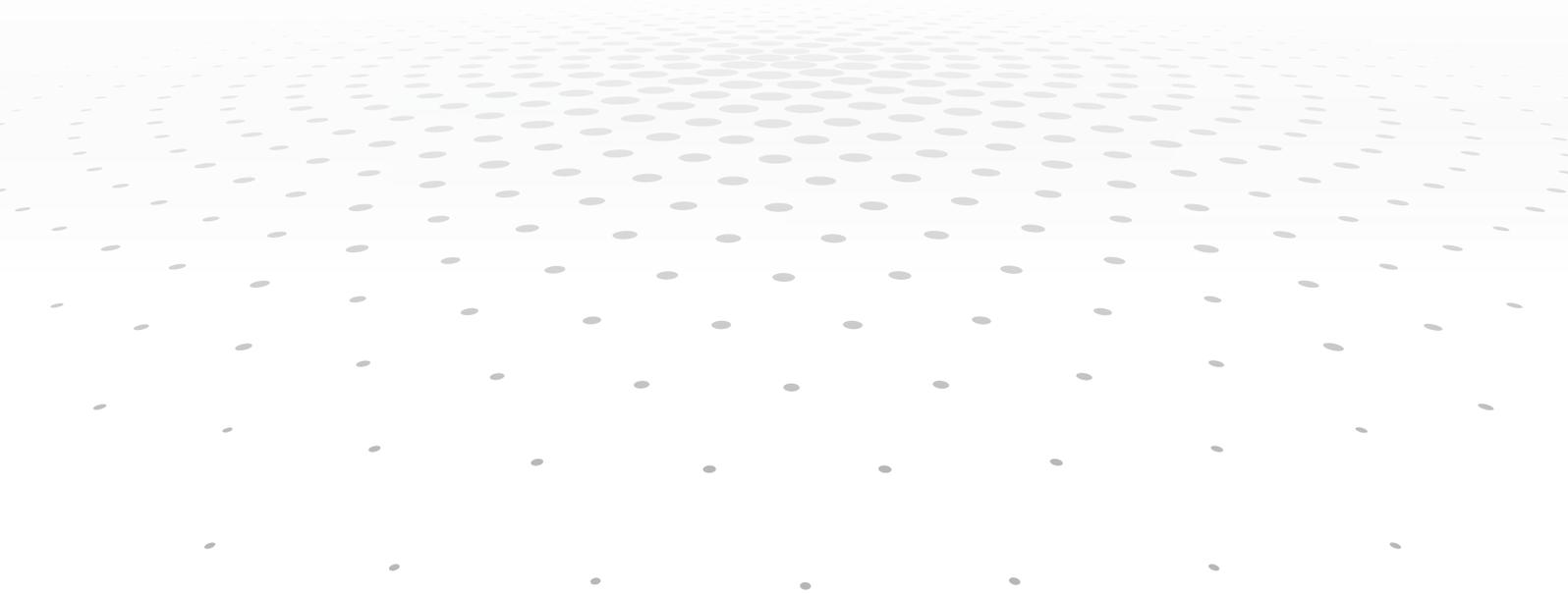


CESOP reporting guidelines for payment service providers (PSP)

Approved at the meeting of the Council of
Finance Latvia Association on 03.03.2023. (protocol No. 3-2/2)



OBJECTIVE:



The purpose of the Central Electronic System of Payment information (hereinafter – the CESOP) reporting¹ is to identify regular cross-border payments and report them if certain criteria are met. The CESOP is introduced to identify persons who would or should have to register as VAT payers and pay VAT in another EU member state due to cross-border activity. It should be noted that the reported data will often contain more information and the reported transactions will not necessarily indicate that the person has engaged in illegal activity. Following the collection and analysis of the data in a centralized framework, it will be concluded whether local tax administrations should carry out additional inquiries.

GENERAL PRINCIPLES:



- Do not report the payer.
- Work only with data available to the PSP.
- PSP does not conduct investigations manually – report transaction which are selected via automated screening based on specific technical criteria.
- PSP does not evaluate who is the VAT payer and where the VAT payer should be registered.
- Covers credit transfers, direct debit (if applicable) and card transactions, in addition, these transactions must be viewed in conjunction with one another.
- Reporting is different for receiving and initiating payments.
- Identifying the 25-transaction threshold and reporting the transaction shall not be misinterpreted – if the threshold is met, all transactions are reported.
- There are no thresholds for the transaction amount to trigger reporting obligation.
- Transaction data is the most accurate on the payment acquirer (payee as the PSP's client) side. When the PSP's client is a payer initiating credit transfer or card payment (card issued by the PSP) at most instances the data necessary for reporting is not sufficient, and due to the quality of the data it would be harder to make a match to identify the payee (reportable person).
- Card transactions include – transactions at POS, e-commerce, as well as card not present transactions.
- Reporting covers both legal or any other entities such as businesses (merchants) and individuals who are not engaged in any commercial activity.
- Cross-border transactions made between the PSP accounts – also must be reported.

GEOGRAPHY:



- A. The **payee's PSP** transaction is reportable if a client in his account received a credit transfer or a card payment and at the same time this payment is received from another EU member state (according to IBAN or card issuer bank's country code). EEZ countries in the context of CESOP reporting are considered as third countries. If the payer is from a third country – there is no obligation to report such transaction due to the fact that EU authorities do not investigate whether EU person (the PSP's client) pays VAT correctly in third countries.
- B. The **payer's PSP** transaction is reportable if a credit transfer is made from client's account, or a client made a payment to a third country with a card issued by this PSP applies and at the same time the payee is located in a third country which is determined by IBAN or BBAN or the merchant's country (according to the registration in the payment system and not to the merchant's legal address). EEZ countries in the context of CESOP reporting are considered as third countries.

¹ A detailed explanation is available in the document "Guidelines for the reporting of payment data": https://taxation-customs.ec.europa.eu/taxation-1/central-electronic-system-payment-information-cesop_en

APPLYING THRESHOLD:



- The obligation to report is if the PSP's customer received (A) more than 25 payments per quarter as a cross-border payments (paid from another country's IBAN or with another country's PSP issued card) **or** the payment was made to one payee more than 25 times per quarter as a cross-border payment (B).
- In scenario (A), credit transfers and card payments are counted together. If a merchant receives funds via card transactions and credit transfers, the 25-transaction threshold is calculated based on all of the transactions taken together. If the threshold is reached, the PSP reports each transaction and provides the information specified in the reporting scheme about each transaction (indicating the recipient of the transaction having in mind the objective of the CESOP – if a person receives multiple cross-border transactions on regular basis, it may be assumed this person provides services in another EU country and therefore is subject to pay VAT in this country, but the investigation will be finalized by within the CESOP centralized system and not by the PSP).
- If the PSP's customer is a sole entrepreneur (one registration code as individual and the other as sole entrepreneur), the 25-transaction threshold is calculated separately for each registration code.
- For payments to third countries (B), it is practically impossible match card payments and credit transfers due to data structure and content. Therefore, it is recommended that credit transfers with one IBAN or BBAN are used to determine the 25-transaction threshold. Other fields are not analyzed, as they are not structured and would significantly reduce the accuracy of reportable data (false positives). The card transactions to third countries are analyzed only within the framework of card payments (because there is no IBAN or BBAN available), using merchant ID available in card payment systems as the only meaningful data field for the matching.
- Although other data fields apart from IBAN or BBAN could be used to determine 25-transaction threshold regarding transactions to third countries (B), it is currently not feasible to perform an automatic screening for the matching purposes in order to ensure high quality reporting. If a PSP believes that it has capabilities to perform manual comparisons in order to train an automated screening tool, such approach is not prohibited, but not necessarily required.

REPORTING:



- An individual person – client of a PSP – who receives at least 25 transactions per quarter from other individuals, is also subject to reporting, if these payments were received from IBAN of another EU member state financial institution (it is not necessary to check further details of registration, branch office, etc., IBAN is the criteria).
- Card transactions on merchant's premises (point of sale of goods and services) are also subject to reporting and threshold counting (A), i.e. if more than 25 transactions have been made with cards from other EU countries in a quarter, then all these transactions are subject to reporting.
- Card payments and credit transfer reporting (A) at most instances will apply to legal entities who are merchants. In other words, these are persons who are the PSP's clients, and the PSP is in possession of accurate data. The card acquirer's report shall include the legal name however the business name registered in the card systems may be omitted.
- The legal address in the report may be recorded in as unstructured data. This field is not validated.
- Refunds are reported if they can be detected in the payments system. Refunds are considered as incoming payments in the scope of the CESOP. When reporting refunds, add a tag to distinguish it from other transaction types.
- Some of the fields in the report are mandatory, some are optional. There are also fields that are not mandatory and are only filled in when this information is available.

DEADLINES:



- Implementation until December 31, 2023.
- Reporting via the State Revenue Service electronic declaration system (EDS).
- First report must be submitted in April 2024 for Q1 2024 data.