Digital VAT Reporting in the EU: Insights from the Italian Experience

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1. Introduction

The European Union has long recognized the importance of modernizing its tax infrastructure to ensure efficiency, reduce fraud and lessen administrative burdens. The digitalization of value added tax (VAT) reporting has become a central pillar among the measures introduced to address these goals. Italy, one of the first EU Member States to fully embrace this transition, offers a compelling case study in how national-level digital tax governance can shape and inform broader EU legislative frameworks. The Italian experience, particularly through its electronic invoicing (e-invoicing) platform known as the Sistema di Interscambio (State-Operated Exchange of Information Platform), demonstrates both the challenges and opportunities of implementing digital VAT reforms. As the European Union moves forward with its ambitious VAT in the Digital Age (ViDA) legislative package, the lessons drawn from Italy's early adoption are particularly instructive.

2. ViDA Legislative Package: A European Framework for Digital VAT

On 8 December 2022, the European Commission introduced the VAT in the Digital Age (ViDA) legislative package (the Package) as part of its broader effort to harmonize VAT administration across the European Union.
The Package officially entered into force on 14 April 2025 and aims to ensure fair and efficient VAT collection for businesses selling goods or services to EU customers, regardless of where those businesses are based or how many borders transactions may cross. Implementation is scheduled to span a decade, from 2025 to 2035.
In particular, the Package comprises three primary pillars, each of which addresses essential areas, such as (i) Pillar One: Digital reporting requirements; (ii) Pillar Two: VAT treatment of the platform economy; and (iii) Pillar Three: Single VAT registration. It has also modified the following legal documents: (i) VAT Directive (2006/112); (ii) VAT Implementing Regulation (282/2011); and (iii) Regulation on administrative cooperation and combating fraud in the field of VAT (904/2010).
For the purposes of this note, we will focus solely on Digital Reporting Requirements (DRRs), defined as any obligation for a VAT-registered person to periodically or continuously submit digital data on most or all of their transactions to the relevant tax authority. This relatively new term is relevant to EU countries and was introduced by the European Commission with the Package, which sets out mandatory e-invoicing and DRR(s) requirements for all EU Member States. The new framework is designed to facilitate real-time data collection, reduce opportunities for fraud or non-compliance and introduce an EU-wide digital reporting obligation on a transaction-by-transaction basis.
One of the most transformative elements of the aforementioned Pillar One is the planned adoption of e-invoicing for cross-border transactions, which is integral to DRR(s) and will facilitate the digital issuance and submission of invoices, beginning on 1 July 2030. While EU Member States will still accept non-standard invoices for certain domestic transactions, all cross-border transactions subject to VAT rules must be reported using a standardized digital format. These invoices must be submitted in the EN16931 format (the EU standard that meets the requirements of Directive No. 2014/55), which is the European Union's official schema that ensures data consistency across jurisdictions.
Notably, recipient consent will no longer be required for e-invoices issued under cross-border reporting obligations,

thereby streamlining business operations and enhancing interoperability. Furthermore, the new regime introduces additional requirements, such as referencing original invoice numbers for corrective documents and including banking information to enable financial tracking.

The Package framework also stipulates strict reporting deadlines. Taxable persons must submit transaction-level data as soon as an invoice is issued or becomes due. This data is then relayed to the tax authority of the Member State that issued the VAT number by either the taxable person or a third-party service provider. Within 1 day, the data is transmitted to the Central VAT Information Exchange System (VIES), where they are stored for at least 10 years. VIES will also serve as a centralized verification hub where Member States can update or invalidate VAT numbers to improve fraud detection and administrative cooperation.

To ensure full harmonization, all EU Member States must align their national reporting systems with Package standards by 1 January 2035. This requirement applies regardless of a country's current system status: whether it already has a fully implemented solution, such as Italy; is operating under a derogation, such as Poland; or has a functional but not yet standardized system, such as Spain.

3. Italy's Experience with Digital VAT Reporting

Italy's commitment to digitalization in VAT reporting began in 2014 with the gradual introduction of mandatory e-invoicing, which was ultimately consolidated through the Sistema di Interscambio (SDL), a central platform managed by the Revenue Agency which can receive electronic invoices (XML), check the entered data and forward the invoices to the final recipients.

In fact, from 31 March 2015 onwards, Italy significantly expanded its e-invoicing system, marking a decisive shift in the management and transmission of invoices across both the public and private sectors. Initially, e-invoicing became mandatory for all transactions with public administrations (B2G), including regional and local entities. The aim was to increase transparency, reduce tax evasion and streamline administrative procedures.

Building on the success of this initial phase, Italy introduced an even more ambitious reform, extending mandatory e-invoicing to business-to-business (B2B) and business-to-consumer (B2C) transactions. This came into effect on 1 January 2019, making Italy the first EU country to require e-invoicing in the private sector on such a broad scale. From that point onwards, almost all invoices issued in Italy – whether to public bodies, businesses or individuals – had to be sent via the SDL. This system now plays a crucial role in facilitating the transmission and processing of invoices, ensuring compliance and authenticity. At the same time, this centralization has allowed the tax authorities to monitor transactions in real time, significantly reducing opportunities for VAT fraud and non-compliance.

Over the following years, the e-invoicing system was refined and gradually extended. In July 2022, the obligation to issue e-invoices was expanded to include smaller taxable persons operating under the flat-rate tax regime, provided their annual revenue exceeded EUR 25,000. This marked a key milestone in making the system more inclusive. Finally, the "Esterometro" obligation for reporting cross-border transactions was also integrated into the SDL system, replacing separate reporting with electronic invoice transmission for both incoming and outgoing foreign transactions.

In particular, the SDL system ensures that, when a supplier uses an invoicing service with an integrated SDL interface, an XML file is automatically sent to the relevant authority when an invoice is created. After confirmation, the supplier receives confirmation of the transaction. Additionally, the supplier should make a copy of the electronic or paper invoice available directly to the consumer. At the same time, the SDL system notifies the customer by email about the invoice — i.e. directly via the authority. In this context, the consumer may choose not to receive a copy of the electronic or printed invoice.

In that sense, the SDL verifies the completeness and consistency of the data in the invoices. This involves verifying the presence of the mandatory fields required by VAT law, the validity of the Italian VAT numbers and tax IDs of both the supplier and the customer, and the completion of the "Recipient Code" field.

Finally, as Italy approaches the European Union's deadline for full harmonization in 2035, its e-invoicing system continues to evolve in line with the ViDA legislative package. The country is actively working to align its domestic system with future EU-wide standards. These reforms aim to further simplify VAT compliance, reduce administrative burdens, and improve fraud prevention across Europe.

4. Italy as a Pioneer in EU Digital Tax Governance

Through successive reforms such as those mentioned above, Italy has become a leader in digital tax administration and has created a model that other EU countries are now beginning to follow.
In this context, Italy's pioneering role in digital tax administration is characterized by both early adoption and an inclusive, comprehensive approach. By incorporating entities operating under flat-rate tax regimes and small-scale non-profits into the e-invoicing system, Italy has closed long-standing gaps in VAT reporting. This has led to more uniform and efficient capture of transaction data, reducing administrative burdens and compliance costs for all. By consolidating domestic and international reporting under the SDL system, Italy has significantly enhanced data consistency and facilitated more seamless interaction between taxpayers and the tax administration.
Another significant reform was raising the VAT exemption threshold to EUR 85,000 in March 2023. This reduced compliance obligations for the smallest businesses and encouraged entrepreneurship by delaying the imposition of regulatory overheads. It also brought Italian tax policy into line with the European Union's broader objectives of supporting small and medium-sized enterprises.
Finally, the implementation of the split payment mechanism in Italy, whereby VAT on certain transactions is paid directly to the government rather than to the supplier, has proven effective in mitigating fraud and closing the VAT gap. Finally, further improvements were introduced by the 2024 penalty reform, which recalibrated fines for e-invoicing violations to ensure they were proportionate and better aligned with taxable persons' behaviour.

5. Conclusion

Italy's digital VAT reforms, centred on the SDL platform, have established the country as a leader in tax digitalization. The country's comprehensive approach, which encompasses a wide range of entities, simplifies cross-border reporting and introduces mechanisms to curb fraud, has delivered measurable benefits to the government and taxpayers alike. These successes provide a valuable model as the European Union prepares for the full implementation of ViDA legislative package.
The Package is indeed a significant step towards unified, digital-first VAT governance across the European Union. By introducing standardized digital reporting and e-invoicing requirements, the European Union intends to increase transparency, reduce fraud and make compliance simpler. Italy's experience demonstrates the feasibility of such reforms and highlights the importance of early and inclusive implementation. As the 2035 deadline for full alignment approaches, EU Member States can look to Italy not just as an early adopter, but also as a blueprint for the digital future of VAT in Europe.

IBFD references:

- For an overview of the ViDA legislative package from the moment it was proposed by the European Commission until its adoption by the Council of the European Union, and regarding further implementation by the Member States, *see* the VAT in the Digital Age (ViDA) Tax Dossier.
- L. Alarcón Díaz, Approval of the ViDA Legislative Package: What's Next?, EU Tax Focus (20 November 2024), IBFD
- ViDA legislative developments are reported on the daily IBFD Tax News Service page.