Electronic Invoicing in Italy

White paper

Executive summary

The electronic invoicing in Italy is mandatory since 2014 for business-to-government transactions (B2G) and it has been gradually extended to all Public Administration sector. From 1st January 2019, the electronic invoicing becomes mandatory also for business-to-business (B2B) and business-to-consumer (B2C) transactions.
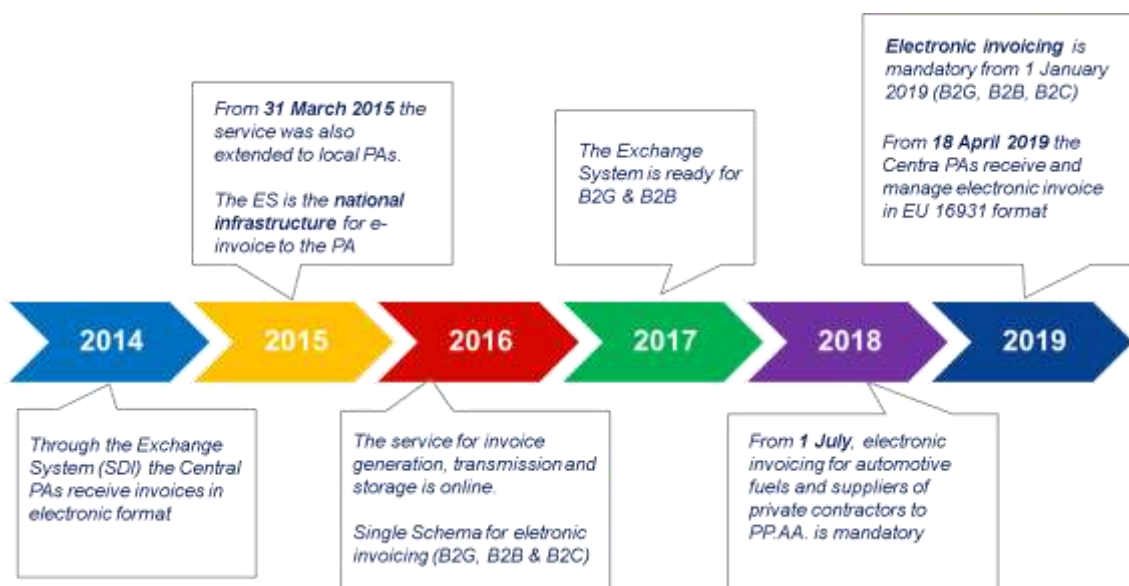
The seller/provider send the electronic invoice to the buyer/orderer through the Exchange System (ES), the so-called Sdi (Sistema di Interscambio). ES is the national infrastructure set up by the Ministry of Economy and Finance and managed by the Revenue Agency for e-invoicing process. It stores the fiscal data and it delivers the invoice to the buyer/orderer, identified by a unique code (for more information refer to Technical Specifications, also available in the English version).

The roadmap for electronic billing obligation via ES (Exchange System)

The Italian Government used a progressive approach in order to extend the electronic invoicing process among private entities:
- in 2014, it becomes mandatory in public procurement for central administrations and in 2015 for local administrations;
- an optional regime was introduced in 2017, as an alternative to the obligation of sending the fiscal data of each invoice to the tax authority on a quarterly basis;
- from July 1st 2018 it became mandatory for fuel sales;
- from January 1st 2019 it became mandatory for almost all transactions between resident entities (including established and identified).

Concerning transactions to and from foreign entities (EU and non-EU) the obligation to transmit invoice data remains in force, unless the foreign entity carries out its activity in accordance with national rules.

From **31 March 2015** the service was also extended to local PAs.

The ES is the **national infrastructure** for e-invoice to the PA

The Exchange System is ready for B2G & B2B

Electronic invoicing is mandatory from 1 January 2019 (B2G, B2B, B2C)

From **18 April 2019** the Centra PAs receive and manage electronic invoice in EU 16931 format

2014 2015 2016 2017 2018 2019

Through the Exchange System (SDI) the Central PAs receive invoices in electronic format

The service for invoice generation, transmission and storage is online.

Single Schema for eletronic invoicing (B2G, B2B & B2C)

From **1 July**, electronic invoicing for automotive fuels and suppliers of private contractors to PP.AA. is mandatory

Benefits

The electronic invoicing has proved to be a very important driver in promoting the digital transition, for both public administration and economic sectors. Moreover it has made a substantial contribution to reducing the VAT gap.

The transition to electronic invoicing was one of the major projects of the Italian Digital Agenda. From the very beginning of the project, there has been a continuous dialogue with all stakeholders. The involvement of all relevant stakeholders is a key factor in creating the necessary conditions for e-invoicing adoption. The electronic invoicing allows to reduce administrative burdens and provides innovative services to businesses, especially small and medium-sized enterprises (SMEs). This is the most important goal with regard to private sector.

In addition, the electronic invoicing process permits to achieve **strategic goals,** such as:

- public expenditure tracking (for B2G e-invoices);
- certainty of the origin of the tax data contained in the invoice for the supplier, the customer and the Revenue Agency;
- timely detection of fraud or omitted VAT payments before submitting the return;
- reduction and simplification of tax and accounting obligations for VAT operators;
- services for the pre-compilation of declarations by the Revenue Agency;
- reduction of post-declaration checks and increase of pre-declaration comparisons;
- automation of business accounting and administrative processes with consequent reduction of costs and errors;
- a more rapid conclusion of the invoicing-payment cycle.

Finally, the data collected from electronic invoicing process has been helpful in building the Italian government's response to the pandemic.

The tools made available to VAT operators

In order to make easy the use of electronic invoicing, the tax authority provides a complete set of free online services, covering all aspects of the e-invoicing process, including digital preservation, which was a major concern in Italy. These services are available to all economic operators and are specifically designed to meet the needs of small and medium-sized enterprises (SMEs).

In addition, the Revenue Agency offers a free-of-charge service to consult its fiscal data stored in ES. Actually, for those who subscribe to that service, the invoices are stored and can be accessed in the authenticated area of the portal called "Fatture e Corrispettivi", until 31 December of the second year following the year of issue. Moreover, the Revenue Agency offers a free-of-charge automatic service for digital preservation of the invoices. For those who subscribe to that service, the invoices are stored for 15 years. For the 2022 tax year, the Tax Authority will use the fiscal information contained in the e-invoices to provide pre-compiled VAT returns, as part of a process that aims to make fiscal compliance easier.

Inside the Exchange System (ES)

The ES is the national infrastructure for e-invoicing process. The Law 244/2007 (paragraphs 209-214) and the Decree 55/2013 provide the legal basis and the technical rules for B2G e-invoicing, while the Legislative decree 205/2017 is the main source for the legal provisions concerning B2B and B2C.
The Italian legislation mandates the use of the ES: in fact, an invoice that is not electronic, or that is not transmitted via the ES is considered as not issued. Once an e-invoice is received, the ES performs some formal controls (to ensure the invoice is formally correct) and forwards it to the recipient according to a delivery code. For public administrations, the delivery code is assigned by the Index of Public Administrations, for business users it is assigned by the ES upon registration.
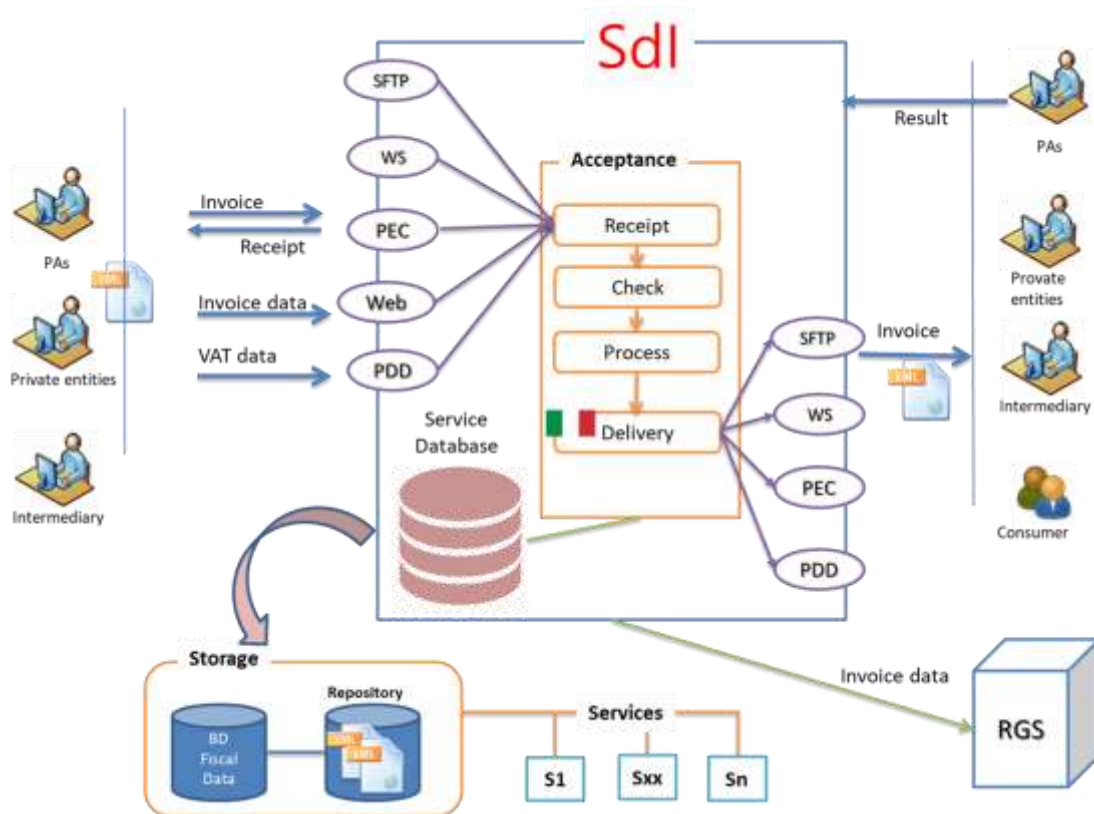
Some records concerning electronic invoicing in Italy

Italy was the first country in Europe to make e-invoicing mandatory for B2G, B2B and B2C transactions, with over 4 billion of files managed since January 2019.
The realisation of the project required an investment of 2.5 million euros in 2015. In order to extend the e-invoicing process to domestic transactions (B2B and B2C) another investment of 1.2 million euros has been done. In contrast, the system management costs are significantly higher, amounting to 20 million euro a year.
Last year (2020) the Exchange System has received and delivered over two billion files of electronic invoices through its transmission channels with 1.60% of rejected files. In the 2019, we had 2.48% of rejected files.

This decrease is a good result for the Revenue Agency and for the whole electronic invoicing process and this proves that public and private sector are equipped and familiar with Italian schema for electronic invoice, the so called "FatturaPA".
In addition, during 2019, e-invoicing system has detected undue VAT credits for a total amount of 1.1 billion euro, while VAT payments (internal exchanges) have increased by 3.6% (+3.626 billion euros) between 2018 and 2019.

European standard on e-invoicing for public administrations

The Directive 2014/55/EU of the European Parliament and of the Council of 16 April 2014 has simplified the participation in cross-border public procurement, envisaging that, starting from March 2019, European public administrations should accept e-Invoices which are in line with the European standard.
Consequently, in order to ensure compliance with European standard on electronic invoicing (EN 16931), which is mandatory for public administrations, it was necessary to introduce some innovations. Thus, in addition to the national schema for electronic invoice, it was specified that it is possible for a private entities to use the European schema for electronic invoice in the transactions with public administrations. Any Public Administrations can receive and process electronic invoices in UBL/CII format since April 2019.
However, it is clear that the obligation of e-invoicing in the public sector (2014) first and then in the private one (2019) in Italy required the operators an investment to support the digitalized process and the "FatturaPA" format, thus the operators prefer to use the Italian XMLPA instead of the EU format in order to preserve their investments.

Key factors to consider when developing the e-invoicing project

Close collaboration with stakeholders

The implementation of the electronic invoicing was also favoured by a close collaboration with all public and private stakeholders who were constantly heard in the design phase in order to intercept and evaluate their needs. The role of intermediaries was important as they have supported the Administration in identifying and deepening the peculiarities of the different economic operators.
In order to establish and conduct close cooperation between the Administration and intermediaries, the forum on electronic invoicing has been established since 2011 where all issues related to the subject are examined with the aim to find shared solutions.

Internet connection

The creation of a new integrated relationship between customer and supplier to start digitalization of national tax simplification processes requires a widespread national ICT infrastructure able to offer to all citizens the benefits of the digitalization in the tax fulfilment. The concern is that people without access to the Internet and other information and communication technologies will be disadvantaged, as they are unable or less able to obtain a real benefits.

Electronic devices

In Italy, the "usability" and the "user experience" are important key points when a new digital services is developed. In fact, an electronic invoice can be managed in all electronic devices. For example, you can use a smartphone, tablet, PC in order to generate an xml file and, if you use a specific channel, you can send it through a simple smartphone. In addition, we use a "mobile first" approach too. This is really appreciated.

Free services

Development of free online services facilitates the fulfilment of tax obligations. It is very important to identify areas where complexities in the tax system for both business and individual taxpayers can be reduced in order to increase the "tax compliance". In fact, the Italian tax authority provides a complete set of free online services, covering all aspects of the e-invoicing process, including digital preservation.

Human resources

Among the factors that have fostered the success of the e-invoicing project is the importance of a well-trained staff, so as to face questions coming from the taxpayers. Thus, the Italian Revenue Agency, have organised specific training courses dedicated to the staff involved in assistance to taxpayers. In addition, a network of 60 contact persons has been created aimed at improving and sharing knowledge and facilitating exchange of expertise related to e-invoicing so as to provide the taxpayer with accurate information. Moreover, in order to be constantly aligned and updated, the network of contact persons have a dedicated forum for the meetings, which are held on a regular basis.

Conclusions

In order to introduce a more efficient and effective electronic invoicing system, it is advisable to adopt a gradual approach, initially preferring only specific economic operators and then extending it in subsequent steps to all of them. In addition, it is essential to involve stakeholders from the early stages to better understand the various strengths and weaknesses of the system.

Another very important issue relating to e-invoicing system, is the question of cybersecurity. The ability of the system to defend from cyber-attacks is crucial as a factor in the protection of citizens' privacy and economic and financial stability.

The IT risk must therefore be constantly assessed at every stage of the process in order to implement suitable actions to mitigate it. Thanks to the constant interaction and collaboration with the software house that provides the management and / or storage software for electronic invoicing, it is possible to guarantee adequate security measures and system management over time.
(the cybersecurity supply chain).

<u>Video on the Knowledge Sharing Plaftorm (KSP)</u>

Please see also a video entitled "Introduction of a generalized electronic invoicing obligation" which you will find on the KSP https://ksp-ta.org/#/registration . The video explains a legislative context and the main steps taken by Italy in the introduction of mandatory electronic invoicing.

<u>Contacts</u>

For more information go to the Revenue Agency (Agenzia delle Entrate) website https://www.agenziaentrate.gov.it/portale/web/english and refer to Taxpayers Services Division div.servizi@agenziaentrate.it and the Technologies and Innovation Directorate dc.tecnologieeinnovazione@agenziaentrate.it.