

# The New Reverse Charge Mechanism for Scrap Metal Trading

A Practical Guide to Compliance with Cabinet Decision No. 153 of 2025

**Regulation:** VAT treatment for ferrous & non-ferrous scrap metal supplies

**Effective Date:** 14 January 2026

**Scope:** Mandatory for all qualifying transactions in the UAE

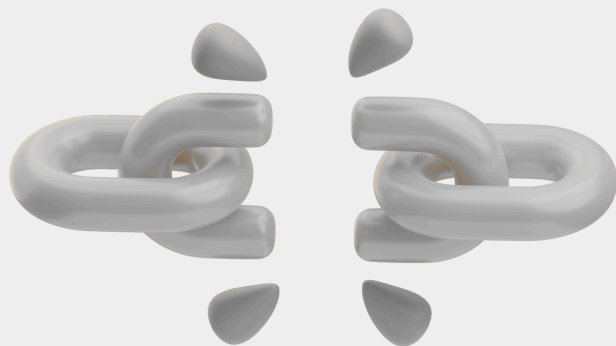


Why This Change?

# Securing the Scrap Metal Supply Chain

## THE PROBLEM

### Missing Trader VAT Fraud



(Supplier → disappears → VAT never remitted)



**“Missing Trader” VAT Fraud:** Suppliers collect VAT and then disappear without remitting it to the government.



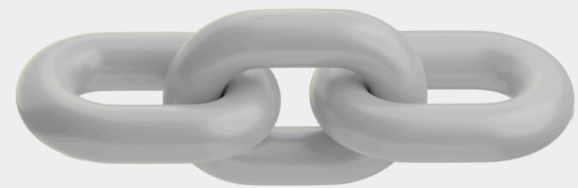
**High-Volume, Cash-Heavy Transactions:** Difficult to trace and audit effectively.



**Reporting Gaps:** Inconsistent documentation across the recycling supply chain.

## THE SOLUTION

### Reverse Charge Mechanism(RCM)



RCM shifts VAT accounting responsibility from the supplier to the recipient.



**Eliminates VAT Leakage:** Stops VAT leakage by shifting liability to the buyer.



**Improves Traceability:** Buyer self-accounting creates a clear audit trail and reduces documentation gaps.



**Reduces Fraud & Boosts Compliance:** Closes missing-trader loopholes and enhances compliance.

Defining the Scope:

# What are 'Metal Scrap' and 'Processing'?



## What Qualifies as 'Metal Scrap'?

### Legal Definition:

Ferrous or non-ferrous metal waste that has commercial value and becomes usable after Processing.

### Examples:

Iron scrap, steel scrap, copper scrap, aluminium scrap, shredded metal, factory waste metal.



## What Constitutes 'Processing'?

### Legal Definition:

Any operation converting scrap metal into a usable manufacturing input.

### Examples:

Recycling & melting, refining, shredding, purification, repair or other conversion, creating billets, ingots, sheets, or coils.

# The 5 Core Conditions: **When Does RCM Apply?**

**RCM applies only if ALL five of these conditions are met:**



## **Supplier is VAT-Registered**

The seller must have a valid TRN.



## **Recipient is VAT-Registered**

The buyer must have a valid TRN.



## **Goods are Metal Scrap**

The materials must meet the official definition.



## **Recipient's Intent**

The buyer must intend to resell the scrap or use it for processing.



## **Mandatory Declarations**

The buyer must provide written declarations before the supply.

# The Critical Prerequisite: **The Buyer's Written Declarations**

The entire RCM mechanism depends on two documents provided by the buyer:

## Declaration 1

A written statement confirming the buyer's intention to either **resell the scrap metal** or use it for **processing**.

## Declaration 2

A written declaration confirming the buyer is **registered for VAT** in the UAE.



### Critical Timing Warning:

- These declarations **MUST** be provided to the supplier **BEFORE** the date of supply.
- They **cannot be provided retroactively**.

No Declarations = No RCM

# The Transaction Defaults to Standard Rate

If the buyer fails to provide the two mandatory declarations in advance, the consequences are:



### RCM Cannot Apply:

The legal basis for using the mechanism is void.



### Supplier Must Charge 5% VAT:

The invoice must include standard VAT, and the supplier is liable for remitting it.



### Buyer Loses RCM Treatment:

The buyer cannot treat the supply under Article 54 rules.



### High Risk of Penalties:

Any attempt to incorrectly apply RCM will be flagged during an FTA audit.

# The Supplier's Compliance Playbook

**Before issuing an RCM invoice, the supplier must:**



## **Receive Both Declarations:**

Obtain the 'Intent' and 'VAT Registration' declarations.



## **Verify Buyer's TRN:**

Independently confirm VAT registration using an FTA-approved method.



## **Issue a Compliant Invoice:**

Invoice must NOT charge VAT and must state: *"Reverse Charge Mechanism Applies — VAT to be accounted by the Recipient."*



## **Retain All Documents:**

Keep copies of all declarations & proof for audits.

# The Buyer's Compliance Playbook

**The buyer takes on full VAT responsibility under RCM. Key buyer obligations:**



## **Provide Declarations:**

Mandatory Intent & TRN declarations before supply.



## **Self-Account for VAT:**

Declare output VAT in the VAT return.



## **Claim Input VAT:**

If eligible, claim the same VAT as input in the same VAT return.



## **Maintain Records:**

Keep evidence that the scrap was genuinely resold or processed.



## **Ensure Audit Trail:**

Retain all declarations and transaction documents.

# The Accounting Treatment: **A Side-by-Side View**

## Supplier

- Does not charge or collect 5% VAT.
- Verifies buyer TRN is active.
- Issues invoice Mentioning VAT to be accounted by Buyer.
- Retains buyer declarations as proof.

## Recipient (Buyer)

- Self-accounts for the 5% VAT as output tax.
- Claims the 5% as input tax (if eligible).
- Net tax impact is usually zero.
- Fully responsible for VAT obligation.

***VAT is always declared - even if not collected by the supplier.***

# Important Exclusions: **When RCM Does NOT Apply**



Buyer is **not VAT-registered**



Buyer does **not provide declarations**



Supply is **zero-rated** (e.g., Article 45(1) export)



Supply is to an **end consumer** or unregistered entity




Goods do **not meet the definition of metal scrap**

## A Key Exception: **Zero-Rated Exports**



RCM does NOT apply if the scrap metal supply qualifies to be zero-rated, such as under Article 45(1) of the VAT Law.

**In this scenario, the supplier must:**

 Apply Zero-Rating (0% VAT)

 Maintain official & commercial export documents (customs declarations, transport documentation)

***Standard export rules override RCM.***

## FTA Audit

# Triggers & High-Risk Areas

### FTA will focus on:

 Missing, incomplete, or late declarations

 No proof of TRN verification

 Invoices without RCM wording

 Misclassification of goods

 Buyer not reselling or processing as declared

 Incorrect VAT return reporting

 Zero-rating without export evidence



# NEED SUPPORT WITH SCRAP METAL RCM COMPLIANCE?

Your VAT Obligations Are Changing — Be  
Fully Prepared Before 14 January 2026



FOR A WORKING SESSION  
CONTACT US AT

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