Reverse Charge Mechanism on Metal Scrap Trading among VAT Registrants

Resource Number: RS059/2026

Resource Details

Country	United Arab Emirates	**Group**	Value Added Tax (VAT)
Category	Federal Tax Authority	**Sub-Category**	Cabinet Decision No. 153 of 2025
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Effective Date	2026-01-14		
Short Brief	Cabinet Decision No. 153 of 2025, issued on 14 November 2025 and effective from 14 January 2026, provides for the application of the Reverse Charge Mechanism (RCM) to metal scrap trading between VAT-registered persons in the UAE. The Decision aims to establish the applicable VAT treatment for such transactions and clarify the related tax compliance obligations for businesses involved in metal scrap trading.		

Sections

Legal Regulation Number

The Ministry of Finance (“MoF”) has issued Cabinet Decision No. 153 of 2025, introducing the reverse charge mechanism (RCM) for the trading of metal scrap between VAT-registered persons in the UAE. The Decision will be effective from 14 January 2026.

The Decision has been issued under Federal Decree-Law No. 8 of 2017 on Value Added Tax, as amended, and Cabinet Decision No. 52 of 2017 (VAT Executive Regulations).

Purpose of New Regulation

The new measure aims to:

- Reduce VAT fraud in the metal scrap sector
- Improve efficiency of VAT administration and refunds
- Promote tax fairness and voluntary compliance

- Support transparency and business confidence in the UAE

Scope

The reverse charge mechanism applies to **domestic supplies of metal scrap where:**

- Both supplier and buyer are VAT-registered; and
- The buyer intends to resell the metal scrap or use it in processing/manufacturing.

VAT Treatment under the Reverse Charge Mechanism

Party	VAT Treatment
VAT Registered Supplier	Does not charge VAT on qualifying supplies and does not report output VAT
VAT Registered Buyer (Recipient)	Self-accounts for VAT and fulfils all VAT obligations related to the supply under Domestic Reverse Charge Mechanism

Procedural Requirements

Buyer's obligations (before supply), Provide a written declaration confirming:

- the metal scrap is intended for resale or processing, and
- VAT registration with the Federal Tax Authority ("FTA").

Supplier's obligations (before supply):

- Obtain and retain the buyer's declarations
- Verify the buyer's VAT registration status with the FTA
- Clearly mention on the tax invoice that "Reverse Charge Mechanism applies

Expected Impact

The Ministry expects this mechanism to:

- Significantly reduce tax evasion in the metal scrap sector
- Enhance efficiency in VAT refund processing

- Align the sector with existing RCM frameworks already applied to electronic devices, gold, and
- other precious metals

Accounting Entry in books of Seller

The seller must recognise the sale as revenue in its accounting books without charging or recording output VAT. Responsibility for accounting for VAT on the transaction shifts to the buyer. For better control in books of Seller, a Seller can create a separate ledger in the Chart of Accounts as "**Sales – Metal Scrap (RCM) A/c"** recognizing all Sales that falls under "RCM".

Accounting entries in the seller's books

Assume the seller supplies metal scrap valued at AED 100,000 to a VAT-registered buyer and all RCM conditions are satisfied.

Journal Entry – On Sale of Metal Scrap

Particulars	Debit (AED)	Credit (AED)
Trade Receivables – Customer A/c	100,000	–
Sales – Metal Scrap (RCM) A/c	–	100,000
Total	100,000	100,000

Narration: Being the sale of metal scrap to a VAT-registered customer under the Reverse Charge Mechanism pursuant to Cabinet Decision No. 153 of 2025.

No output VAT liability is recorded by the seller.

VAT treatment and accounting classification

Particulars	Treatment by Seller
Sales recognition	Sales – Metal Scrap (RCM) A/c
VAT classification	Outward supply subject to RCM
VAT rate applied by seller	No VAT charged
Output VAT liability	Nil

Particulars	Treatment by Seller
VAT payable by seller on this sale	Nil
Responsibility for VAT accounting	Buyer
Accounting ledger	Separate sales ledger for Metal Scrap – RCM
Nature of supply	Reverse-charge supply, not a zero-rated or exempt supply

Important: The seller should not classify this transaction as a zero-rated or exempt sale merely because no VAT is charged. It should be separately identifiable as a supply subject to RCM.

VAT Return treatment for the seller

Article 2(1)(a) specifically provides that the supplier shall not be responsible for accounting for VAT on qualifying metal scrap supplies and shall not include the supply in its VAT return.

Accordingly:

- Do not report output VAT on the transaction.
- Do not include the RCM sale in Box 1 as an ordinary standard-rated sale.
- Do not report the transaction as a zero-rated or exempt supply.
- Maintain a separate RCM sales register for reconciliation with revenue recorded in the financial statements.

This treatment follows the specific reporting exclusion under Cabinet Decision No. 153 of 2025.

Conclusion and recommended accounting practice

The seller should maintain a dedicated ledger such as "Sales – Metal Scrap (RCM)" and create a separate tax classification within its accounting software.

This will enable the business to recognise the full sales consideration as revenue, avoid recording output VAT on qualifying transactions, reconcile its sales ledger with its VAT return, and maintain the supporting evidence required for tax compliance.

Documents

• Application of the Reverse Charge Mechanism on Metal Scrap Trading among Registrants in the State for the Purposes of Value Added Tax

• Summary of Cabinet Decision No. 153 of 2025

References

No references added.