



Reverse charge in the valuable metals industry

Reverse charges of GST now apply to all business-to-business taxable supplies of gold, silver or platinum.

Last updated 17 January 2020

The *A New Tax System (Goods and Services Tax) Act 1999* (GST Act) as it relates to precious metals has been amended with effect from 1 April 2017.

From 1 April 2017, a mandatory reverse charge applies on business-to-business transactions of valuable metals. This applies to sales between GST-registered suppliers and GST-registered purchasers to all taxable supplies of gold, silver or platinum.

A reverse charge transaction makes the purchaser responsible for remitting GST, rather than the supplier. It makes it easier and faster for businesses in the valuable metal industry to meet their GST and reporting obligations.


To support introduction of the new law, interim arrangements applied from 1 January 2017 to 31 March 2017. These arrangements allowed sellers and purchasers to enter into a voluntary reverse charge (VRC) arrangement. During this time, GST-registered businesses (sellers and purchasers) that entered into a VRC arrangement had to submit a worksheet to report and reconcile these transactions, in addition to lodging their business activity statement (BAS).

The reverse charge worksheet does not apply for tax periods after 1 April 2017.

Note: The reverse charge is not applicable when you are buying and selling to customers who are not carrying on a business (individual – non-business entities). In these situations, the normal GST rules apply.

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See also:

- [A New Tax System \(Goods and Services Tax\) \(Incidental Valuable Metal Goods\) Determination 2017 \(No. 1\)](#)  – Legislation and supporting material
- VM 2018/1 Goods and Services Tax: Valuable Metals Market Value Determination 2018 – This legislative instrument sets out the method to calculate the market value of valuable metal to work out whether the taxable supply exceeds the valuable metal threshold.

What the reverse charge means

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The interim VRC arrangement applied to VRC transactions entered into between 1 January 2017 – 31 March 2017.

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What the reverse charge means

Understand what the reverse charge means and how this applies.

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The reverse charge means that from 1 April 2017, if you:

- buy valuable metals from another business, you
 - no longer need to pay GST to the seller
 - are responsible for reporting and paying the GST amount when you lodge your BAS

- sell valuable metals to another business, you
 - must clearly state that the sale is a reverse-charged sale on the tax invoice you provide, this also applies if you are a buyer and you use recipient-created tax invoices
 - are responsible for reporting the sale when you lodge your BAS.

The reverse charge makes the purchaser of the supply rather than the supplier responsible for remitting GST. This aligns the GST payable on the supply with the purchaser's credit entitlement. The GST payable and credit entitlement will both be netted off on the purchaser's BAS.

A reverse charge provides a level playing field for businesses and makes it easier for businesses in the valuable metals industry to meet their GST obligations.

Example: Applying a reverse charge transaction

On 1 April 2017, GoldX Refining buys scrap gold (a taxable supply item) from Scrap Metals Pty Ltd for \$1,100 (GST inclusive). Both entities are registered for GST, and complete their activity statement using the calculation worksheet method (GST inclusive amounts). The transaction is business-to-business.

Under the reverse charge mechanism, the seller and buyer are now required to do the following.

Seller

- Scrap Metals Pty Ltd is required to treat the scrap gold sale with GoldX Refining as a reverse charge in the corresponding BAS reporting period for this transaction. In this example, the reverse charged GST amount is \$100 and the taxable supply amount is \$1,100
 - no GST is reported by Scrap Metals Pty Ltd at Label **1A** for this transaction
 - Scrap Metals Pty Ltd is still required to report the taxable supply amount of \$1,100 at Label **G1**
 - the tax invoice or recipient created tax invoice needs to state the wording **reverse charged** against the related supply item.

Buyer

- In the corresponding BAS reporting period for this transaction, GoldX Refining is required to
 - pay the related supplies amount of \$1,000 to Scrap Metals Pty Ltd and the reverse charged GST amount of \$100 (10%) to us
 - report the reverse charged GST amount of \$100 at Label **1A**
 - report input tax credits using **G11** or Label **1B** in the usual way. In this example, if GoldX Refining is entitled to an input tax credit for this purchase, it would report the transaction at Label **G11** (\$1,100) or Label **1B** (\$100).

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Determining whether the reverse charge applies to individual products

How to determine whether the reverse charge applies.

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The reverse charge is not intended to apply merely because the goods being sold have a precious metal component. The reverse charge **will not** apply when the market value of the goods exceeds the market value of the valuable metal component contained within the goods by more than 10%. When calculating the market value, values are GST-exclusive.

Application of 10% threshold test

In most cases, the 10% threshold test will be straightforward to apply. However, there may be cases when there is uncertainty, or when some suppliers and purchasers may expect to be parties to a high volume of transactions involving the supply of goods containing valuable metal. In these instances it may be difficult or costly for the parties to work out whether or not a particular supply of goods meets the 10% threshold test.

When these difficulties exist, the parties can enter into a written agreement so that GST on taxable supplies made by the supplier of goods containing the valuable metal can be 'reverse charged' to the purchaser.

When manufacturers and wholesalers sell a large variety of items and it is difficult to determine whether the items should be reverse charged, the Commissioner of Taxation expects businesses to voluntarily agree to apply the reverse charge.

Determining the market value

We have prepared a legislative instrument outlining that you determine the market value of the valuable metal contained in a good using the following formula on the date of sale:

- (weight of valuable metal) × (spot price of the valuable metal on that date) where
 - **weight of valuable metal** is the weight in troy ounces of the valuable metal in the good
 - **spot price of the valuable metal** on the date of sale is whichever of the following you choose
 - one of the published rates for the date provided by an Australian entity recognised as a member of the London Bullion Market
 - one of the published Australian rates for the date reported by the London Bullion Market Authority (LBMA)
 - one of the published Australian rates for the date provided by a commercially recognised authoritative provider of spot price data.

Spot price value of goods vs price paid for value of the goods

Goods are regularly on-sold to another business (refiner or a jeweller) for more than the price that was paid. This is particularly if the spot price of the precious metal has increased. In these circumstances, the reverse charge needs to be considered on the day of the relevant transaction (at the time the goods are on-sold in this instance).

Example: On-sale transaction

An 18-carat gold necklace with a broken clasp is sold to a second-hand dealer by a member of the public. Based on the spot price of gold, and the quality and condition of the chain, the dealer pays the client a price which is 50% of the value of the gold content – for example, \$90. The reverse charge is not applicable in this situation as the member of the public is not a registered business.

The second-hand dealer decides to on-sell this and other scrap jewellery purchased that is currently not selling in the store, to another business (that is, a refiner). The refiner pays 95% of the price of the gold content. From the second-hand dealer's perspective, the goods were sold for more than 110% of the purchase price, but less than the spot price of the value of the gold content at the time of sale.

In this example the reverse charge is applicable, as the sale is business-to-business and the price paid is less than 110% of the market value of the precious metal.

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Sales covered by a reverse charge

Sales covered by a reverse charge and definitions of precious and valuable metal.

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Supplies of precious metals that are not of the required fineness are taxable supplies and will be reverse charged when sold to a registered business.

The first supply of a precious metal after refining is GST-free (zero-rate). Subsequent supplies of precious metal are treated as input taxed (exempt). If the precious metal is subsequently altered, and is no longer of the required fineness or in an investment form, it no longer meets the definition of precious metal and is treated as valuable metal. Then the supply reverts to a taxable supply and will be subject to the new reverse charge rules.

Definition of precious metal

Under Australian GST law a 'precious metal' is defined as either:

- gold (in an investment form) of at least 99.5% fineness
- silver (in an investment form) of at least 99.9% fineness
- platinum (in an investment form) of at least 99% fineness
- any other substance (in an investment form) specified in the regulations of a particular fineness specified in the regulations.

Examples of precious metals include goods (bars, bullion) that consist of gold, silver or platinum that are equal or greater than the fineness percentages mentioned above.

Definition of valuable metal

'Valuable metal' means gold, silver, or platinum that would not qualify as a precious metal due to not being of the requisite fineness and in an investment form.

Examples of valuable metals:

- goods that consist of gold, silver or platinum that are less than the fineness percentages mentioned above
- gold dore
- gold granules
- gold bars which are not in investment form.

Goods do not need to be entirely comprised of valuable metal to be subject to the mandatory reverse charge.

See also:

- [Determining whether the reverse charge applies to individual products](#)

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Examples of reverse charge

See examples of when reverse charge applies.

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Example 1: Mixed metals – voluntary reverse charge

A jewellery manufacturer frequently supplies valuable metal goods that contain gold of varying fineness combined with varying amounts of low-value metals, such as copper, to a retail jewellery store. It would not be practical to distinguish which supplies fall above and below the 10% threshold.

In such a situation the jewellery manufacturer could enter into a written agreement with the purchaser of the goods to voluntarily reverse charge all their supplies. This would remove the need to apply the 10% threshold test on the individual metals supplied.

Example 2: Jewellery business-to-business reverse charge transaction

There may be circumstances when manufacturers, wholesalers and jewellers sell surplus or damaged stock to be refined. In these circumstances the jewellery may be sold for the value of its valuable metal content. In this scenario, as the jewellery is being

sold for its valuable metal content, the price paid for the jewellery may be **less than 110%** of the value of the valuable metal and the reverse charge would apply.

Example 3: Jewellery business-to-business GST transaction (no reverse charge)

A manufacturer makes a piece of jewellery that has gold worth \$200 at the current spot price for refined gold (for example, gold bullion) and silver worth \$50 at its current spot price. The combined value of the valuable metal is \$250 and therefore 110% of the value of the valuable metal is \$275. The piece of jewellery is sold for \$330 to a registered jewellery business. The market value of the goods on a GST exclusive basis is therefore \$300.

The reverse charge does not apply to this business-to-business transaction as the price is **greater than 110%** of the valuable metal content. However, the manufacturer and registered jewellery business have the option to reverse charge these transactions.

Example 4: Damaged jewellery business-to-business reverse charge transaction

The above piece of jewellery is damaged prior to its sale. The manufacturer sells the jewellery to a local refiner who agrees to pay a price equal to 95% of the spot price for the gold and silver content. The refiner pays the manufacturer \$237.50. As the price is less than \$275, the reverse charge applies to the transaction. Any GST payable on the sale is accounted for by the refiner under the reverse charge.

Example 5: Supply chain – gold refiner to jewellery manufacturer (no reverse charge as supply is GST-free)

Gold X Pty Ltd refiner sells gold bullion (GST-free) to Scrappy Metals Pty Ltd (both registered for GST). Gold bullion that is of the required fineness meets the definition of a precious metal. Precious metals are not taxable supplies and are not subject to the reverse charge.

Example 6: Supply chain – jewellery manufacturer to jeweller (no reverse charge as did exceed 10% valuable metal threshold)

Scrappy Metals Pty Ltd is a gold manufacturer that makes jewellery.

Scrappy Metals Pty Ltd alters the precious metal into two 18-carat gold necklaces and sells these to Pretty things Pty Ltd (registered for GST) on 27 June 2017 for \$1,798.00. The necklaces each contain four grams of gold at \$30.16 per gram (spot price). The market value of the gold is \$241.28.

The market value of the necklace exceeds the market value to its gold content by 645% ($100\% \times (1,798 - 241.28) \div 241.28$). The reverse charge is not required to be applied to this supply. However, Scrappy Metals Pty Ltd and Pretty things Pty Ltd businesses have the option to reverse charge these transactions.

Example 7: Supply chain – jeweller to public (no reverse charge and normal GST rules apply)

Pretty Things Pty Ltd sells one necklace to a member of the public. No reverse charge applies at this selling point as the reverse charge only applies to business to business transactions. The normal GST rules apply when selling to an individual and the

sale price must include GST for any taxable sales. As the seller, Pretty Things Jeweller Pty Ltd must collect and remit GST payable on the sale.

Example 8: Supply chain – jeweller to gold refiner (reverse charge as did not exceed 10% valuable metal threshold)

Pretty Things Pty Ltd has several bracelets with broken clasps and damaged rings which have not sold to date. They decide to sell these items to Gold Rush Pty Ltd to be refined.

Pretty Things Pty Ltd has determined that on 30 June 2017 the spot price of the valuable metal content in these items is \$3,890.

Gold Rush Refiner Pty Ltd pays \$4,102 to purchase these items.

The market value of these items exceeds the market value to its valuable metal content by only 5.44%

$(100\% \times (4,102 - 3,890) \div 3,890)$ that is under the 10% value added threshold. The reverse charge is required to be applied to this supply.

Example 9: Supply chain – public to pawnbroker (no reverse charge and normal GST rules apply)

Monica (individual non-registered entity) pawned a gold clock with a market value of \$460 to pawnbroker XYZ Pty Ltd.

No reverse charge applies at this point as the reverse charge law does not apply if you are buying and selling goods to members of the public (individual non-business entities).

Example 10: Supply chain – pawnbroker to refiner (reverse charge as did not exceed 10% valuable metal threshold)

Monica does not redeem the clock in the required amount of time and Pawnbroker XYZ Pty Ltd displays the clock for sale. There is no interest in this item from customers, and after some time XYZ Pty Ltd decides to sell the clock to gold refiner Gold X Pty Ltd for \$560.

The gold content of this clock has been valued at \$511.

The market value of these items exceeds the market value to its valuable metal content by 9.6% ($100\% \times (560 - 511) \div 511$).

This supply from Pawnbroker XYZ Pty Ltd to the refiner is subject to a reverse charge as the market value of the clock does not exceed the 10% valuable metal threshold.

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Second-hand goods

How we define second-hand goods and how to apply the threshold test and collectable or antique test.

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Most dealers in second-hand goods will not be impacted by the recent law changes. However, if you deal in related precious metal business-to-business transactions you may be required to reverse charge certain transactions.

Definition of second-hand goods

The definition of second-hand goods has been amended to clarify that goods containing gold, silver or platinum are **not** second-hand goods. This ensures that gold, silver or platinum bars that are scratched or slightly defaced don't fall within the definition of second-hand goods.

There are some occasions where precious metal goods are still considered second-hand goods, including:

- when their value satisfies the valuable metal threshold test
- when they are considered collectables or antiques.

In addition to this, the Treasurer can determine that a class of goods that are not likely to be subject to exploitation will continue to be treated as second-hand goods.

Threshold test

Goods whose value satisfies the valuable metal threshold test may qualify as second-hand goods, despite the second-hand goods containing some valuable metals.

This applies when:

- a dealer buys and sells finished goods from a person who is not registered for GST
- the value of the goods is substantially greater than the intrinsic value of any constituent valuable metals.

This also applies if they contain gold, silver or platinum, for example:

- a \$5,000 watch that contains \$700 worth of gold content
- a computer worth \$400 that has a small quantity of silver worth \$50
- a collector's sports trophy worth \$1,000 containing silver worth \$150
- a silver brooch (jewellery) containing a number of precious stones set in silver; the brooch is valued at \$3,000 but the price of the silver is only around \$100
- a chest of drawers with gold inlay (furniture), the chest of drawers sells for \$4,400 and the spot price of gold would be around \$2,000.

Some of these items meet both the collectable and antique test and the 10% threshold test.

If the value of the goods exceeds the intrinsic value of any constituent valuable metals by a threshold amount of at least 10%, this highlights the good should properly be characterised as consisting of the value-added product, rather than the constituent metal.

Importantly, this 10% test applies to each valuable metal within the item.

The collectable or antique test

Collectables and antiques should also be considered second-hand goods when they both:

- consist wholly or partly of valuable metal (but are not 'precious metal')
- are acquired for the purposes of sale or exchange (but not for manufacture) in the ordinary course of business.

There are no definitions of the terms 'collectables' or 'antiques' in the GST Act. Therefore, the ordinary meaning of the terms 'collectables' and 'antiques' applies, taking into account the context and purpose of the legislation.


The context in which the words are used in the GST Act is that of trading in second-hand goods that contain valuable metal, and needing to determine when those goods qualify for claiming input tax credits under Division 66 of the GST Act.

Items that could qualify as collectables and antiques would include:

- numismatic (collectable) coins, rounds, tokens or medallions, including items that are coloured, themed or commemorative
- collectable bullion bars, ingots or wafers that are minted with keepsake designs, packaged and sold as collectables
- older pieces of jewellery with a well-known or renowned maker's mark and metal mark (for example Tiffany & Co, Rolex, Gucci, Bulgari) that are regarded as prestigious brands with identifying hallmarks
- antique jewellery (meaning pieces at least 100 years old)
- rare or antique pieces of silverware or goldware
- items comprising 15 carat gold, which would generally qualify as 'antiques', given that these items ceased being made in the mid-1930s these would also be considered as a collectable item.

Items that would not qualify as 'collectables' or 'antiques' may include:

- ordinary jewellery containing gold, silver or platinum (whether or not it also includes valuable stones or other materials)
- medallions, rounds, tokens or coins that are not genuinely collectable
- common pieces of goldware or silverware
- scrap gold, silver or platinum of any kind
- items sold to a refiner to be melted or altered, which would not generally be regarded as collectable.

In addition to goods which satisfy the threshold test or the collectables and antiques test, the Minister can deem prospectively that a class of goods that are not likely to be subject to exploitation will continue to be second-hand goods, despite the amendments to the definition. For an example, see [A New Tax System \(Goods and Services Tax\) \(Incidental Valuable Metal Goods\) Determination 2017 \(No. 1\)](#) .

See also:

- [Determining whether the reverse charge applies to individual products](#)

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Record keeping requirements

What records you need to keep for the GST reverse charge.

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Suppliers and purchasers are required to account for the GST reverse charge in their accounts from 1 April 2017.

It is a condition that when you issue a tax invoice or recipient created tax invoice (RCTI) involving reverse charged transactions, the wording **reverse charged** is stated and aligned to the items sold under the reverse charge.

The tax invoice or RCTI is expected to reflect the amount of GST reverse charged or provide enough information to support the purchaser determining the amount of GST that has been reverse charged.

For record keeping purposes, as an immediate solution the supplier may select a GST-free transaction to record the reverse charged sale.

For a supplier's BAS, your key reporting requirements are:

- report reverse charge sales (aka GST-free supplies) at Label **G1**
- no GST reported for reverse charge sales at Label **1A**.

For a purchaser's BAS, your key reporting requirements are:

- report GST payable for reverse charge sales at Label **1A**.

If the purchaser is entitled to an input tax credit relating to the purchase, there is no change. Continue to report input tax credits using **G11** or Label **1B**.

Tax invoice or recipient created tax invoice

Tax invoices or recipient created tax invoices (RCTI) must include enough information to clearly inform both parties that a reverse charged transaction is present.


If your sales involve GST-free, reverse charge or taxable sales, it is important that your tax invoice or RCTI clearly reflects the corresponding transactions.

Details need to include:

- that the document is intended to be a tax invoice or RCTI
- the supplier's and purchaser's identity
- the supplier's Australian business number (ABN) and purchaser's ABN when RCTI is being used
- the date the invoice was issued
- a description of the items sold, including the 'fineness' (if applicable) and the price
- the GST amount (if any) payable – this can be shown separately or, if the GST amount is exactly one-eleventh of the total price, as a statement such as 'total price includes GST'

- the extent to which each sale on the invoice is a taxable sale (that is, the extent to which each sale includes GST)
- where the sale is clearly identified as being fully taxable and subject to a reverse charge, the words 'reverse charged' needs to be displayed in the description line and directly aligned to the item being sold.

Example 1: Tax invoice involving a GST reverse charged transaction

 Example 1 - Tax invoice involving a GST reverse charged transaction includes: 1kg gold bar reverse charged 93.69% purity \$40,000. 1kg gold bullion (GST free) 99.99% purity \$50,000. Assay fees (GST payable transaction) \$55. Freight (GST payable transaction) \$220. Total price including GST \$90,275. The reverse charged GST amount payable is \$4,000.


1. GST reverse charged transaction

1A. The reverse charged GST amount payable is \$4,000

2. GST free transaction

3. GST payable transaction

Example 2: Recipient created tax invoice (RCTI) involving a GST reverse charged transaction

 Example 2: Recipient created tax invoice (RCTI) involving a GST reverse charged transaction including: 1kg gold bar reverse charged 93.69% purity \$40,000. 1kg gold bullion (GST free) 99.99% purity \$50,000. Assay fees (GST payable transaction) \$55. Freight (GST payable transaction) \$220. Total amount deposited to your bank account including GST is \$89,725. The reverse charged GST amount payable is \$4,000.

1. GST reverse charged transaction

1A. The reverse charged GST amount payable is \$4,000

- 2. GST free transaction
- 3. GST payable transaction

See also:

- Issuing tax invoices
- Recipient created tax invoices

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Voluntary reverse charge agreement for sales between 1 January – 31 March 2017

The interim VRC arrangement applied to VRC transactions entered into between 1 January 2017 – 31 March 2017.

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Note: For periods from 1 April 2017, the VRC worksheet is no longer required to be completed.

The interim VRC arrangement only applied to VRC transactions entered into between 1 January 2017 – 31 March 2017.

During this time, businesses that entered into these voluntary arrangements were required to complete and submit a worksheet to report and reconcile these transactions, in addition to the BAS.

We have been able to give effect to the voluntary GST reverse charge agreements between buyers and sellers when the following has occurred.

- The buyer has provided us with accurate transaction information, their sellers' ABNs and appropriate authorisation to transfer available credits on the buyer's ATO account into the ATO accounts of the sellers.

- The buyer has ensured that they have enough credit in their ATO account for us to facilitate the transfers.

As part of the VRC process, it is important that both parties are up to date with their tax affairs. We are unable to transfer credits between parties when the relevant conditions are not met.

Use the [VRC worksheet \(PDF, 1.79MB\)](#)  for the periods of 1 January 2017 to 31 March 2017.

The VRC does not apply from 1 April 2017 and the worksheet is **not** required for periods after that date.

If a transfer can't be made from the purchaser's account

We are not able to make a transfer from the purchaser's account when the purchaser:

- has not paid the required amount under the VRC
- has a debt owing to us
- enters into liquidation or becomes insolvent.

When we cannot make a transfer from the purchaser's account.

- We cannot enforce the commercial agreement between the purchaser and seller.
- The seller remains liable for any GST payable on the supply to the purchaser.
- Sales and GST payable amounts reported on the BAS are not revised to reduce the seller's sales and GST payable amount for any credits for VRC transactions not transferred from the purchaser.

If you, as a seller, have not received your GST credit from the buyer you should refer to the terms of your agreement and consider seeking independent advice regarding the options available to you.

If you are uncertain if a transfer under the VRC has been made to your account from the buyer, call **13 28 66** to enquire.

See also:

- [ATOtv](#)  – slides from our July 2017 webinar.

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