Scrap metal

Detailed information about GST and the scrap metal industry.

GST and scrap metal: code of compliance

The scrap metal code of compliance makes it easier for scrap metal dealers and buyers to meet GST obligations.

Scrap metal: claiming GST credits

Information on how to claim the correct GST credits if you are a GST-registered scrap metal dealer.

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GST and scrap metal: code of compliance

The scrap metal code of compliance makes it easier for scrap metal dealers and buyers to meet GST obligations.

3 July 2023

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About the code of compliance

Both scrap metal buyers and sellers are required to report all sales and other sources of income.

The code of compliance provides instructions for buyers of scrap metal on:

- when an Australian business number (ABN) must be quoted by the seller
- when to withhold 47% (from 1 July 2017) from a payment
- records to keep when an ABN is quoted or required to be quoted
- records to keep when an ABN is not required to be quoted.

The code of compliance covers both statutory and voluntary measures, such as proof-of-identity procedures. By following the code, GST-registered scrap metal buyers can ensure they are claiming the correct GST credit entitlement.

The details of the code are explained in this document. See our Flow chart to assist with applying the code of compliance.

Sellers of scrap metal without an ABN

It is compulsory for businesses with a GST turnover of $75,000 or more to have an ABN and to be registered for GST. Businesses with a GST turnover of less than $75,000 can still apply for an ABN. You may choose to register for GST once you have an ABN.

You need to have an ABN and be registered for GST in order to claim GST credits for any GST you have paid for goods or services you have used in your business.

Not all scrap metal industry sellers will have an ABN. Some businesses with a GST turnover of less than $75,000 may choose not to apply for an ABN. This does not prevent sellers from making a sale.

If the seller does not quote an ABN, the buyer must withhold 47% (from 1 July 2017) of the sale. This is what we refer to as the no-ABN withholding rule. This allows businesses with an ABN to buy scrap metal from sellers who cannot quote a valid ABN.

An exception is when a specific reason as to why the no-ABN withholding rule does **not** apply is completed in a *Statement by a supplier* and reasonable enquiries have been made to verify the reason provided.

The no-ABN withholding rule is designed to ensure that businesses, especially those that are not required to be registered for GST, do not request cash payments in an attempt to avoid their tax obligations.

By following the record-keeping requirements outlined in the code of compliance, scrap metal buyers are able to validate any GST or expense claim they are entitled to for these purchases.

The no-ABN withholding rule

If a seller cannot quote an ABN to you before you make any payment for the supply, you can still buy scrap from them using the no-ABN withholding rule.

You apply the no-ABN withholding rule by withholding an amount at the top marginal rate of tax (47% from 1 July 2017) from the total payment and send the withheld amount to us.

You report the amount withheld to us in your next business activity statement and complete a payment summary form and give it to the seller. The seller will use this form to claim the withheld amount as a credit in their following tax return.

The no-ABN withholding rule does not apply if the seller completes a *Statement by a supplier* declaring the supply is not made in the course of carrying on a business or where the sale amount is $82.50 or less.

The no-ABN withholding rule is not an alternative to having an ABN. Having a valid ABN is the easiest way to make business-to-business sale transactions.

Statement by a supplier

If an ABN is not quoted and you do not apply the no-ABN withholding rule, you must record the seller's details for all sales over $82.50. You can use the **Scrap metal industry – statement by a supplier** for this purpose or incorporate the required details into your normal invoicing system.

Depending on the circumstances, you may require the seller to provide you with a specific reason or a general reason as to why the no-ABN withholding rule does not apply. If a specific reason is required, you must make reasonable enquiries to verify the explanation.

There are strong penalties for sellers who make false statements about their business circumstances and the value of their transactions. You must maintain complete records that allow us to identify the seller and verify purchase transactions.

Recipient-created tax invoices

It can be difficult to work out the value of scrap metal until it is sorted, weighed and valued. As a result, the seller may not be able to provide a tax invoice at the time of delivery or pick-up.

In these circumstances, the buyer may issue a **tax invoice**. This invoice is called a recipient created tax invoice (RCTI).

The requirements to issue an RCTI include:

- the buyer must be approved by us to issue RCTIs – see **Recipient Created Tax Invoice Determination 2023** for who is approved to issue RCTIs.
- the RCTI should be issued within 28 days of making or determining the value of the purchase
- both the buyer and seller must have a valid ABN and both be registered for GST at the time the RCTI is issued.

Record keeping and claiming GST credits

By complying with the code of compliance, you will have the necessary records to verify your claims for **GST credits on purchases of scrap metal**.

As a scrap metal dealer, if you are registered or required to be registered for GST you are entitled to claim GST credits when you buy scrap metal from a GST–registered business and you hold any of the following documents:

- a valid **tax invoice**
- a recipient–created tax invoice (RCTI)
- for purchases that do not exceed $82.50, a record that describes the material purchased, the amount paid and the date of the transaction.

You may also be entitled to GST credits when you purchase second-hand goods, such as scrap metal from an entity that is not registered and is not required to be registered for GST, if you:

- bought the scrap for sale or exchange as part of your business
- hold the records as detailed under the code of compliance.

Certain exceptions apply. See **GST and second hand goods**.

Applying the scrap metal code of compliance

$82.50 threshold

Under the code of compliance, the no-ABN withholding rule must be applied for transactions of $82.50 or more.

There is no need to withhold payment from transactions of $82.50 or less, but the code requires you to record a description of the:

- material purchased
- amount paid
- date of the transaction.

Acquisitions from entities not quoting an ABN

If you acquire scrap metal in any of the following categories, and the supplier has not quoted a valid ABN, the no-ABN withholding rule must be applied as follows:

1. Scrap material (for transactions over $82.50) purchased from an enterprise or from someone acting on behalf of an enterprise – for example, employees.
2. Scrap material (for transactions over $82.50) picked up from commercial premises, including factories, warehouses, work sites, demolition sites and any other places of business.
3. Scrap material (for transactions over $82.50) delivered in commercial vehicles, including light trucks, tippers, trucks, prime movers and semi-trailers.
4. Scrap material (for transactions over $82.50) that is of an obvious commercial nature, including industrial by-products, decommissioned industrial equipment or quantities inconsistent with domestic output.
5. Transactions over $300 – collusion to break up transactions to avoid this limit will be penalised at the highest penalty rates.
6. Any pattern of transactions exceeding $3,000 annually.

Exception – *Statement by a supplier*

An exception exists where a specific reason as to why the no-ABN withholding rule does not apply is included in a *Statement by a supplier* and you have made reasonable enquiries to verify the reason provided.

A *Statement by a supplier* should be completed for all transactions over $82.50 where no ABN is provided. The supplier can:

- use the **Scrap metal industry: statement by a supplier** form
- ensure the same level of detail is incorporated into their invoicing system.

In either case, the following supplier details must be captured:

- full name and address
- payment amount in dollars
- quantity of material (by weight)
- description of material (for example, ferrous / non-ferrous / mixed)
- proof of identity with traceable identifier (ideally a drivers licence number)

- registration of vehicle and vehicle type that delivered the material (relevant only to deliveries by supplier)
- general reason for exemption from the no-ABN withholding rule where a supply has been made in a circumstance **not** covered by (b) to (f) above.
- where a circumstance arises under (b) to (f), a specific reason must be documented and reasonable enquiries must be made to verify the reason provided
- signature of supplier
- date of transaction.

Acquisitions from entities quoting an ABN

Where an entity quotes an ABN or is required to quote an ABN, the following information must be documented in the dealer's invoicing system:

- ABN
- name and address
- payment amount in dollars
- quantity of material (by weight)
- description of material (for example, ferrous / non-ferrous / mixed)
- date of transaction
- proof of identity with traceable identifier (ideally a drivers licence number and relevant only to deliveries by supplier)
- registration of vehicle and vehicle type that delivered the material (relevant only to deliveries by supplier).

Where the entity is registered for GST, the dealer must have a recipient-created tax invoice (RCTI) agreement in place **prior** to the issue of the RCTI.

Notes to the code of compliance

1. The following component to the code has been 'frozen' while we assess improvements in industry compliance:
   'All transactions over $300 must be paid by electronic funds

transfer (EFT) or by cheque made out to an individual or to an entity (cash cheques are not acceptable).'

2. There is no need to withhold for transactions under $82.50, but evidence of the purchase is required, including a description of goods, the amount paid and the date.

Acceptance of a *Statement by a supplier* in circumstances detailed in parts (b) to (f) of the code is expected only in **exceptional** circumstances. We will intensely scrutinise both parties to the transaction to verify the information provided.

3. All sales are to be reported to us, including circumstances where the purchaser issues an RCTI.

Flow chart: applying the code of compliance

If the transaction is for more than $82.50, you can use the flow chart below to work out your obligations.

There is no need to withhold payment from transactions of $82.50 or less. But the code requires you to record the:

- description of the material purchased
- amount paid
- date of the transaction.

Flow chart: how to apply the code of compliance

Question	Action if 'No'	Action if 'Yes'
1. Has the supplier quoted the correct ABN? (Note a)	Proceed to Question 2	Record: • the supplier's ABN, name and address • the amount paid • the quantity of material you purchased • a description of the material you purchased

		• the supplier's proof of identity, vehicle registration and vehicle type • the date of the transaction.
5. Is the material being supplied by: • an enterprise • an employee of an enterprise • someone acting on behalf of an enterprise?	Proceed to Question 3	Apply 47% (from 1 July 2017) no ABN withholding (Note b)
6. Is the material: • being supplied from commercial premises • delivered by a commercial vehicle • commercial by nature or volume?	Proceed to Question 4	Apply 47% (from 1 July 2017) no–ABN withholding, unless an exception applies and specific reasons have been provided in a valid *Statement by a supplier*
7. Is the total payment to the supplier more than either: • $300 for this transaction • $3,000 annually?	Proceed to Question 5	Apply 47% (from 1 July 2017) no-ABN withholding, unless an exception applies and specific reasons have been provided in a valid *Statement by a supplier*

8. Has the supplier completed a valid *Statement by a supplier*? (Note c)	Apply 47% (from 1 July 2017) no-ABN withholding	Do **not** apply 47% no-ABN withholding

(a) Where the supplier is registered for goods and services tax (GST), there must be a recipient-created tax invoice (RCTI) agreement between the buyer and supplier. The agreement can either be a separate written agreement that must be in place before an RCTI is issued, or you can embed the agreement in the RCTI (see **Recipient-created tax invoices** form for a template for an embedded agreement). An RCTI must **not** be issued to a supplier who quotes an ABN and is not registered for GST.

(b) If you withhold amounts where no-ABN withholding applies, you must report and pay these amounts to us.

(c) A statement by a supplier must be retained for 5 years.

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Scrap metal: claiming GST credits

Information on how to claim the correct GST credits if you are a GST-registered scrap metal dealer.

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If you're a GST-registered scrap metal dealer, you can claim GST credits for purchases you make that are:

- for business use, not to make input-taxed or private sales
- subject to GST.

You must have a valid tax invoice to claim GST credits for purchases greater than $82.50

This applies to scrap metal and equipment (such as trucks, and sorting and crushing machinery) that you use in your business. You can claim GST credits even if the sale you then make is GST-free – for example, a GST-free export of scrap metal.

To claim GST credits on goods you purchase for export you must buy them from a GST-registered seller. You must hold a tax invoice from the seller.

How you claim GST credits differs for:

- purchases from GST-registered sellers
- purchases from sellers not registered for GST.

Purchases from GST-registered sellers

You may be able to claim GST credits when you purchase from GST-registered sellers. The amount you can claim as a GST credit is normally 1/11th of the cost of a purchase.

Find out about:

- What you need to make a claim
- When to claim GST credits

What you need to make a claim

In order to claim a GST credit for a purchase greater than $82.50, you will need to hold a tax invoice from your seller or a recipient-created tax invoice (RCTI).

For purchases less than $82.50, you will need proof of purchase, such as a receipt or documentation that includes:

- the name and address of the seller
- a description of the type and quantity of the goods
- the date and cost of the purchase.

When to claim GST credits

If you are a small business, you can choose to account for your GST obligations on either a cash or a non-cash basis.

If you use cash accounting, you can claim the GST credit in the tax period you:

- provide payment for the purchase
- hold a tax invoice for the transaction.

If you use non-cash accounting (accruals), you can claim the GST credit in whichever is the earlier of:

- the tax period in which you make any payment for the purchase
- the tax period when a tax invoice is issued to you, or you issue a recipient-created tax invoice (RCTI).

You may issue RCTIs for scrap metal you buy from registered sellers. To do this you must be a scrap metal dealer and have a written agreement with the seller. Written agreements must comply with the conditions set out in determination RCTI 2009/1.

Whether you account on a cash or non-cash basis, you must document your transactions.

See also:

- **Recipient created tax invoices – scrap metal**
- **RCTI 2009/1** Recipient Created Tax Invoice – Embedded Agreement Amending Legislative Instrument 2009

Purchases from sellers not registered for GST

You may be able to claim GST credits when you purchase second-hand goods from an unregistered seller for resale.

Find out about:

- Statement by a supplier
- Second-hand goods purchased for resale
- What you need to make a claim
- Export goods purchased from unregistered sellers

Statement by a supplier

An unregistered seller cannot give you a tax invoice and you cannot issue them with a recipient-created tax invoice (RCTI). They must provide you with a 'statement by a supplier' when your purchase is greater than $82.50.

They can use the form *Scrap metal industry: statement by a supplier* or incorporate the information required into their normal invoicing system.

See also:

- Scrap metal industry: statement by a supplier

Second-hand goods purchased for resale

The value of second-hand goods you purchase for resale affects when and how you can claim GST credits.

Purchases of $300 or less

You can claim GST credits for purchases of $300 or less in the tax period you make the purchase, regardless of when you intend to sell it.

Purchases costing more than $300

You can only claim GST credits for purchases costing more than $300 when you resell the goods. You calculate and claim the GST credit in the period of your sale.

The GST credit which you can claim is equal to the **lesser** of:

- 1/11th of the your payment for the second hand goods
- the amount of the GST payable on the sale of the second-hand goods.

Purchases divided for resale

If you choose to divide purchases for resale the process for claiming GST credits is slightly different. This process is called global

accounting.

The global accounting process applies when:

- you purchase second hand goods
- the purchase costs more than $300
- you expect to divide it into two or more separate sales.

You may also choose to use this process when you purchase second-hand goods for $300 or less and sell them in at least two separate sales.

When using this method (global accounting), you pool your GST credits and GST payable so that you only need to pay GST when the GST payable exceeds the amount of credit available. Where the amount of GST credit exceeds the GST payable, no refund is payable. However, this net amount is carried forward and off-set against the GST payable you need to pay in the next tax period.

Example:

	1st tax period	2nd tax period	3rd tax period
GST credit carried over from previous period	Nil	Nil	$500
GST collected (as a result of sales)	$1,000	$2,000	$4,000
GST credits (as a result of purchases)	$900	$2,500	$2,000
GST payable to ATO	$100	Nil	$1,500
GST credit to be carried over to next period	Nil	$500	Nil

In all circumstances, care needs to be taken in claiming GST credits when goods are subsequently exported.

What you need to make a claim

In order to claim a GST credit for a purchase greater than $82.50, the seller must provide you with a statement by a supplier for your records.

For purchases less than $82.50 you will need documentation that includes:

- the name and address of the seller
- a description of the type and quantity of the goods
- the date and cost of the purchase.

Export goods purchased from unregistered sellers

Exported goods are GST-free.

If the seller is not registered for GST, you cannot claim GST credits on your purchases which you subsequently export.

See also:

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Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year

before making decisions based on that information.

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