

**Accounting for VAT on Works Contracts**

**How do I account for VAT when executing Works Contracts?**

You can either account for VAT on the goods involved in the contract by identifying the value of the goods transferred in the course of execution of a works contract and paying tax at the appropriate VAT rate, or you can opt to pay tax by way of composition. In both cases, you can claim a set-off of the VAT paid on the purchase of the goods.

**Do I have to apply to the Sales Tax Department to use the composition scheme?**

No. You can decide on an individual contract basis whether to opt for accounting for VAT by way of composition. You must retain in your VAT accounts and records full details of how you have accounted for VAT.

**How do I calculate the VAT due to be paid on the contract if I have not opted for composition?**

You are liable to pay tax at the rate specified for the goods in the Maharashtra VAT Act, 2002 on the goods transferred in the execution of the works contract.

You can calculate the sale price of the goods by deducting the following items from the total value of the contracts.

- labour charges for the execution of works
- amount paid by way of price for sub- contract, work (if it is subjected to VAT separately)
- charges for planning, designing and architects fees
- hire charges for machinery and tools
- costs of consumables such as water, electricity, fuel used in the execution of the works contract
- cost of the establishment of the contractor to the extent to which it is relatable to the supply of labour and services.
- other similar expenses relatable to the supply of labour and services
- profit earned by the contractor to the extent it is relatable to the supply of labour and services

The net figure arrived at by deducting the above amounts from the total value of the contract is the notional sale price of the goods included in the contract on which you have to account for VAT at the rate specified for the goods in the Maharashtra VAT Act, 2002.

**How do I account for VAT if I have not opted for composition and fail to keep the records necessary to reduce the value of the contract to arrive at a sale value for the goods?**

In such a case, the Sales Tax Department may impose a lumpsum deduction based on a percentage of the contract price. This percentage will be applied after first deducting from the total contract price any amounts paid for sub-contractors, if such sub contractors pay VAT separately on their sub contract value. The amount so arrived at will be the sale price for the goods on which VAT has to be calculated and paid.

**If I have not opted for composition, can I claim set-off for the VAT I have been charged on the purchase of the goods to be transferred in the works contract or on capital assets purchased for use in the works contract?**

Yes, You can claim full set-off of the VAT paid on the purchase of all goods, including capital assets as are otherwise admissible.

**Are there any situations in which I do not have to charge VAT on goods transferred in the execution of works contracts?**

Yes, in the following circumstances you do not have to account for VAT on goods transferred in the execution of works contracts:

- Contracts executed outside the state of Maharashtra

**Can I claim set-off for the VAT I have been charged on the purchases of the goods to be transferred in the works contract or on capital assets purchased for use in the works contract where no tax has to be charged ?**

You cannot claim set off in the case of works contracts executed outside the State of Maharashtra.

**What is the position regarding VAT if I employ a sub-contractor on a works contract which I have been awarded?**

Either you or the sub-contractor can account for VAT and claim set-off. The person not accounting for VAT must possess an exemption certificate issued by the person accounting for VAT.

**How do I account for VAT if I opt to pay VAT by way of composition in respect of a contract?**

VAT has to be accounted for at the rate of 8% of the total value of the contract. You can claim set-off calculated at the rate of 16/25 of the VAT you have been charged on the purchase of all goods including capital goods purchased for use in the execution of the works contract.

## **What are the advantages of opting to account for VAT by way of composition?**

It simplifies the record keeping required and the calculation of the value on which VAT has to be charged.

You should assess each works contract to judge whether paying VAT by way of composition would be to your advantage.

## **What is the position regarding tax deduction at source?**

Persons issuing works contracts will be notified by the Sales Tax Department if they are required to deduct tax at source. The rate of tax to be deducted would be as notified.

The person deducting the tax is required to deposit the tax with the Sales Tax Department within a specified time limit.

You will be given a Tax Deduction Certificate by the Contractee for the amount of tax deducted. You can deduct this amount from the VAT you are liable to pay on the works contract at the time you complete your VAT returns.

A works contractor can apply to the Sales Tax Department for a certificate limiting the amount of tax to be deducted at source in cases where the dealer can demonstrate that the tax to be deducted will exceed the tax due.

## **Do I have to account for VAT on works contracts entered into before 1 April 2005?**

Yes. However, you are not required to pay more tax after 1 April, 2005 than would have been payable under the Maharashtra Sales Tax on the Transfer of Property in Goods involved in the Execution of Works Contract (re-enacted) Act, 1989.

## **How do I obtain further information regarding VAT?**

Contact your local Sales Tax Office.

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There is a new series of leaflets, written in simple language, to explain the value added sales tax system.

The range of leaflets will each cover a single topic, and the topics covered will gradually be expanded over the next few months.

You will be able to get copies of the leaflets from your local Sales Tax Office.

Other leaflets that you may find useful are:

MVAT 101 – What is VAT?

MVAT 102 - Should I be registered for VAT?  
MVAT 103 - How to register for VAT  
MVAT 104 - Keeping records for VAT  
MVAT 105 - Tax invoices for VAT  
MVAT 106 – VAT: Composition Schemes  
MVAT 107 - How to file a VAT Return  
MVAT 108 - Claiming set-off for VAT  
MVAT 110 – Incentives under VAT  
MVAT 111 - VAT Advisory Visits

These notes are for guidance only. They reflect the tax position at the time of publication. They do not replace the legislation or affect your rights of appeal about your own tax position. If in doubt, contact your local Sales Tax Office for assistance.

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