

Leaflet 21

TREATMENT OF WORKS CONTRACTS

01 ARE WORKS CONTRACTS LIABLE TO TAX UNDER AP VAT ACT, 2005?

Yes. The value of sale of goods used in the execution of works contract is liable to tax. The liability however arises if the contractor is registered or is liable to be registered under APVAT Act, 2005.

02 WHO HAS TO BE REGISTERED FOR VAT ?

The following works contractors are required to be registered for VAT regardless of turnover threshold:

- Every dealer executing any works contract exceeding Rs.5 lakhs for State Government or local authority;
- Every dealer opting to pay tax by way of composition on works contract.

03 HOW DO I CALCULATE MY TAX LIABILITY AS A WORKS CONTRACTOR, IF I AM A VAT DEALER?

Every works contractor needs to pay tax on the value of goods used at the time of incorporation in the execution of works contract, at the rates applicable to such goods. However, if he is unable to determine the value of goods, he needs to pay tax @ 12.5% on the total value, subject to certain deductions.

04. IS THERE ANY PROVISION FOR PAYMENT BY WAY OF COMPOSITION FOR WORKS CONTRACTORS?

Yes. There are different schemes of composition for different works contractors.

- a) If you are a dealer executing works contract for State Government / Local authority, you may opt to pay tax @ 4% on the total value of such contract. In such cases tax @ 4% will be collected at source and will be remitted to the department.
- b) In case you are constructing and selling residential apartments, houses, buildings or commercial complexes, you can opt to pay tax by way of composition at the rate of 4% on 25% of the total consideration received or receivable or the market value whichever is higher. The balance 75% of the total consideration will be allowed as deduction.
- c) If you are executing any other works contracts you may opt to pay tax by way of composition for any specific contract at the rate of 4% of 50% of the value of contracts. The balance 50% of the total value will be allowed as deduction.

05. WHAT IS THE PROCEDURE FOR OPTING FOR COMPOSITION ?

You need to fill in Form VAT 250 and submit in your tax office.

If you are-

- (i) a contractor executing works for State Government & local authority and / or
- (ii) a contractor executing works other than for State Government and local authority and building apartments;

you are required to exercise option for each contract before the end of the month in which the work has commenced. The composition so opted for shall be valid for that specific contract.

If you are a builder & developer of apartments, once an option is exercised, the composition shall be effective from the 1st day of the month in which application is made and shall terminate on the last day of the month in which the application for withdrawal is made.

06. IF I AM A TOT DEALER, WHAT IS MY TAX LIABILITY?

You must pay tax at the rate of 1% on the value of the goods used in works contract and you will not be eligible to claim input tax credit.

If you are a TOT dealer and did not maintain accounts to determine the correct value of goods you must pay tax at 1% on total value of contract from which the following expenditure will be deducted.

- a) Labour charges
- b) Charges for planning, designing and architecture
- c) Hire charges for machines and tools
- d) Cost of consumables such as water, electricity fuel etc.
- e) Cost of establishment relating to labour and services
- f) Other expenses relating to labour and services
- g) Profits earned relating to labour and services

07. IF I AM A VAT DEALER EXECUTING WORKS CONTRACT, WHAT ARE THE METHODS OF CALCULATING MY TAX LIABILITY?

You need to pay tax only on the value of the goods used at the time of incorporation in the execution of the works contract at the rates applicable to those goods. To arrive at the taxable turnover, the expenditure mentioned in Answer to Q.6 above can be deducted from the total value of the contract.

If you are a VAT dealer executing works contract and did not maintain accounts to determine the value of the goods, you are liable to pay tax @ 12.5% of the total value of the contract reduced by the standard deductions prescribed in AP VAT Rules 2005.

For eg:

If you are a contractor involved in installation of plant & machinery, and you have not maintained accounts for determining the value of the goods used in the contract, a standard deduction of 15% will be allowed from the value of the contract. You will need to pay tax @ 12.5% on the balance 85% of the value of the contract.

08. CAN I ISSUE A TAX INVOICE IF I HAVE OPTED FOR COMPOSITION?

No. You cannot issue a tax invoice, if you have opted to pay tax by way of composition.

09. IF I AM A SUB-CONTRACTOR WHAT IS MY TAX LIABILITY UNDER AP VAT ACT 2005?

A sub-contractor of a main contractor who executes works for State Government or local authority is exempt to the extent of the value of the such sub-contract. In this case the main contractor will be liable to pay tax on the total value of the contract. The sub-contractor will not be eligible to claim input tax credit on goods used in the execution of such sub-contract.

Other sub-contractors are not exempt. Such sub-contractors can either opt to pay tax by way of composition or pay at the normal rate applicable to the goods. If the sub-contractor opts to pay tax by way of composition, no input tax credit will be allowed. Other sub-contractors can claim input tax credit provided they are registered for VAT.

10. WHAT ARE THE PROVISIONS FOR TAX COLLECTION AT SOURCE (TCS) IN THE AP VAT ACT 2005?

If you are a VAT dealer and executing works contracts for State Government Departments or local authority, such contractees concerned shall collect the tax at the rate of 4% for each payment released to you by applying tax fraction of 1/26 to such payment and issue a certificate to you to that effect. In such cases you are not directly required to pay tax related to such transactions.

11. ARE THERE ANY PROVISIONS FOR TAX DEDUCTION AT SOURCE?

Any Company or Government Undertaking shall deduct tax at the rate of 2% of the amount paid or payable to the contractor registered as a VAT dealer and issue a certificate to the contractor. Any firm which awards any contract exceeding Rs.10 lakhs to a VAT dealer, shall also deduct tax @ 2% of the amount paid or payable to such contractor. The contractor shall send that Form to the prescribed authority within 15 days from the date of each payment made to him. The contractor needs to pay tax if the tax deducted is less than what he has declared on the VAT return or what he is liable for.

12. WHAT SHOULD I DO TO OBTAIN FURTHER INFORMATION?

You should contact your local Tax office.