



M/s PRANJAL JOSHI & CO
CHARTERED ACCOUNTANTS

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Works Contract and M-Vat

Meaning -

Works contract means a contract for carrying out any work which includes assembling, construction, altering, manufacturing, processing, fabrication, erection, installation, fitting out, improvement, repair or commissioning of any movable or immovable property.

e.g. - Contract of construction, painting, repairs, installation etc may be categorized as works contract. Pure labour contracts are however out of scope of works contract.

Works contract being a typical contract where there is simultaneous sale and/or supply of material and service. As such, sale of material out of total works contract portion is subject to M-vat while service portion is subjected to Service Tax.

Many times, it is difficult to ascertain the exact material &/or service portion leading to double taxation and hence works contract is one of the grey area of taxation.

Maharashtra Govt under Mvat and Central Govt under Service tax has come out with some “composition schemes” which although do not address the issue of correct computation of material portion and service portion, but to a greater extent makes the computation work easier.

Works contract under M-Vat -

Under M-Vat 3 options are available for computation of vat liability on works contract. These can be explained as follows -

Option 1 - Determination of sales price by reducing labour and other prescribed amounts at actual

The calculations under this shall be as follows -

	Computational Methodology	
A	Total Contract value of the Works contract	XXXXXXXX
B	Less - following amounts at actuals	
b 1	Labour and service charges for the execution of the works subsequent to transfer of property	XXXX
b 2	Amounts paid by way of price for sub-contract	XXX
b 3	Charges for planning, designing and architect's fees	XX
b 4	Charges for obtaining on hire or otherwise, machinery and tools for the execution of the works contract	XX
b 5	Cost of consumables such as water, electricity, fuel, used in the execution of works contract	XX
b 6	Cost of establishment of the contractor to the extent to which it is relatable to supply of the said labour and services	XX
b 7	Other similar expenses relatable to the said supply of labour and services	XX
b 8	Profit earned by the contractor to the extent it is relatable to the supply of said labour and services	XX
C	Sales Turnover liable to M-vat	XXXXX



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The value of goods arrived as above shall be the sale price or, as the case may be, the purchase price relating to the transfer of property in goods involved in the execution of a works contract.

Rate of tax shall be the regular rate prescribed under the respective schedules. Thus if the goods used in the execution of a works contract are, falling under say, Schedule A, the rate of tax shall be Nil, if falling under Schedule C, the rate of tax shall be 4%, and likewise if they are Schedule E goods, the rate of tax is 12.5%.

If in a particular contract, there are several commodities used, which may be falling under more than one schedule, then it would be necessary to divide the sale price in the same proportion in which the goods of various categories have been used in the execution of such a contract.

It may be noted that, under this method, a dealer is eligible for full input tax credit as per the normal provisions. Further, he is also entitled to collect tax separately by issuing a Tax Invoice.

Option 2 - Determination of sales price by reducing labour and other prescribed amounts as prescribed (Table Method)

The calculations under this shall be as follows -

Computational Methodology		
A	Total Contract value of the Works contract	XXXXXXXX
B	Less - Lump sum deduction as prescribed in M-vat rules for the particular contract in hand	XXXX
C	Sales Turnover liable to M-vat	XXXXX

The value of goods arrived as above shall be the sale price or, as the case may be, the purchase price relating to the transfer of property in goods involved in the execution of a works contract.

Rate of tax shall be the regular rate prescribed under the respective schedules. Thus if the goods used in the execution of a works contract are, falling under say, Schedule A, the rate of tax shall be Nil, if falling under Schedule C, the rate of tax shall be 4%, and likewise if they are Schedule E goods, the rate of tax is 12.5%.

If in a particular contract, there are several commodities used, which may be falling under more than one schedule, then it would be necessary to divide the sale price in the same proportion in which the goods of various categories have been used in the execution of such a contract.

It may be noted that, under this method, a dealer is eligible for full input tax credit as per the normal provisions. Further, he is also entitled to collect tax separately by issuing a Tax Invoice.



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Lump sum Deduction stated at “B” above in computational methodology, is prescribed as follows under Mvat rules -

Sr. No.	Type of Works Contract	*Amount to be deducted from the contract price (%)
1	Installation of plant and machinery	15%
2	Installation of air conditioners and air coolers	10%
3	Installation of elevators (lifts) and escalators	15%
4	Fixing of marble slabs, polished granite stones and tiles (other than mosaic tiles)	25%
5	Civil works, like construction of buildings, bridges, roads, etc.	30%
6	Construction of railway coaches or under-carriages supplied by Railways	30%
7	Ship and boat building including construction of barges, ferries, tugs, trawlers and dredgers	20%
8	Fixing of sanitary fittings for plumbing, drainage and the like	15%
9	Painting and polishing	20%
10	Construction of bodies of motor vehicles and construction of trucks	20%
11	Laying of pipes	20%
12	Tyre re-treading	40%
13	Dyeing and printing of textiles	40%
14	Any other works contract	20%

Option 3 - Works Contract Composition Scheme

Under this method, works contractor, may choose to pay tax @ 8% on the total contract value. (After deducting there from the amount paid towards sub-contract, if any.). If a contractor chooses to opt for the composition scheme, then the set-off is restricted to 64% of the total eligible set-off in respect of such goods used in the execution of such works contract. However, he is eligible to collect tax by issuing a Tax Invoice.

Comparison of Options

Options	Issue of Tax Invoice	Input set off	Rate of Vat to be charged	Other points
I	Permissible	Fully allowed	Depends upon goods trans in works contract	Various deductions are permissible for computation of turnover but the rate computation and working is difficult
II	Permissible	Fully allowed	Depends upon goods trans in works contract	Various deductions are permissible for computation of turnover but the rate computation and working is difficult
III	Permissible	64 % allowed	8% on Total Value	Computation is easier