

The Works Contract Tax (WCT) and **Service Tax** treatment on **civil contracts** depends on whether the contract is **composite** or **compounded**, and on the applicable **state VAT laws** (as WCT was a state subject pre-GST).

Here's a **general guideline** based on the laws prevailing prior to the introduction of GST (especially as of 2010):

Civil Contracts – Tax Treatment

a) Composite Contract

A single contract for both supply of materials and provision of services.

- **Service Tax:**
 - If availing **abatement**, contractor can charge **4.12%** (i.e., 40% of 10.3% in 2010) of gross contract value (material + labour).
 - If under **composition scheme**, contractor may opt to pay 4% of gross amount (rates varied slightly depending on year and law interpretation).
 - **WCT Deduction:**
 - **Generally 2%** (on total contract value or taxable value depending on state).
 - Some states required deduction at **5%** if contractor is unregistered or not furnishing proper breakup.
 - **TDS under WCT** was made by the contractee (you) and deposited with the state VAT department.
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b) Compounded Contract

Contractor opts for **composition scheme** under VAT laws — pays WCT at a fixed rate on total value without claiming input tax credit.

- **Service Tax:**
 - Still applies @ **4.12%** under composition/abatement.
 - Contractor cannot claim CENVAT on inputs.
 - **WCT Deduction:**
 - States usually fixed a lower flat rate: **1% to 5%** depending on the scheme.
 - In many cases, **no WCT deduction** was required **if** contractor had opted and paid composition tax and you had proof (like composition certificate).
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 **Example:**

Assume contract value is ₹10,00,000:

Particulars	Composite Contract	Compounded Contract
Gross Value	₹10,00,000	₹10,00,000
Service Tax @ 4.12%	₹41,200	₹41,200
WCT @ 2% (TDS)	₹20,000	₹10,000 (or NIL)*

* Depends on state-specific rules and if composition scheme certificate is provided.

Your Next Steps:

1. **Check if contractor is registered for WCT** and/or has opted for composition.
 2. **Ask for breakup** of service and material, or certificate of composition.
 3. Verify applicable **WCT rates in your state** as they differ.
 4. **Deduct and deposit WCT** accordingly, and issue a certificate to the contractor.
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