

Government of West Bengal
Finance Department
Audit Branch, Group T
(File No. E-333279)

No. 4691 - F(Y)

Dated, 22nd November, 2022

MEMORANDUM

GST rate on works contract has recently been enhanced from 12% to 18% with effect from 18.07.2022 in terms of CGST Rate Notification No. 03/2022 – Central Tax (Rate) dated 13th July, 2022 and WBGST Rate Notification No. 1393-FT dated 23rd August, 2022.

Now, consequent upon enhancement of GST rate, as above, following points are hereby clarified:

- a. In all cases where work order is given inclusive of all taxes and there is no indication of rate of GST in tender document, there will be no scope of change of tendered value by enhancing the GST rate to 18% from 12%.
- b. In all cases where work order is given inclusive of all taxes and there is clear indication of rate of GST (@12%) in tender document, the tendered value of unbilled works may be enhanced up to 6% subject to adjustment of **cost of inversion** if any.
- c. In all cases where tender is under process and there is clear indication of rate of GST (@12%) in the tender document and closing date of bid submission is before 18.07.2022, tendered amount may be enhanced by 6% subject to adjustment of **cost of inversion**, if any.
- d. Where Administrative Approval and Financial Sanction (AAFS) has been issued but tender has not been floated before 18.07.22, revised AAFS by enhancing GST to 18% is to be done before floating of tender.
- e. In all cases where revised AAFS is required solely due to enhancement of rate of GST, the Administrative Departments may accord revised AAFS irrespective of value of project after obtaining concurrence of the FA of the Department.

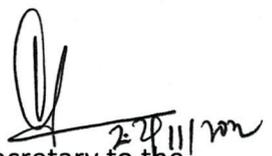
Explanation:

Cost of Inversion: The erstwhile lower tax rate on outward supply (12%) against the tax suffered on input goods and services (18% or 28%) was creating a situation of inversion / inverted tax structure resulting in accumulation of Input Tax Credit (ITC). The GST law restricts refund of accumulated ITC in case of inverted duty tax structure. This accumulated ITC thus created a blockage of working capital which, in turn added to the cost of a contractor. This cost is referred to as the 'cost of inversion'. **So, it is most likely that at the time of bidding for the price, a contractor considered such cost and quoted his price in a tender accordingly.**

Since, from 18.07.2022 the rate of GST on works contract has increased to 18%, the quantum of accumulated ITC will be reduced considerably. **Hence, the effective increase in contract price due to increase in GST rate from 12% to 18% would be = [Value of supply @18% including GST minus (-) Value of supply @12% including GST] minus (-) the cost of inversion which has been included (if any) in the contract price].**

Illustration:

Basic contract value excluding col. (b) [Rs.]	Cost due to inversion, if added to the contract value [Rs.]	Contract value quoted by the contractor after considering cost of inversion (excluding GST) [Rs.]	GST on works contract upto 17.07.2022 [Rs.]	GST on works contract on and after 18.07.2022 [Rs.]	Increase in tax burden on supply due to increase in tax rate [Rs.]	Effective increase in contract value [Rs.]	Effective % of increase in contract value
(a)	(b)	(c) = (a)+(b)	(d) = 12% on (c)	(e) = 18% on (c)	(f) = (e)-(d)	(g) = (f) - (b)	(h) = [(g)/(c)] x 100
100	0	100	12	18	6	6	6%
100	5	105	12.6	18.9	6.3	1.3	1.24%
100	7	107	12.84	19.26	6.42	(-) 0.58	0%


Addl. Chief Secretary to the
Government of West Bengal

Copy forwarded for information and necessary action to:

1. Principal Accountant General (A&E), West Bengal, Treasury Buildings, 2, Government Place West, Kolkata – 700001.
2. Principal Accountant General (Audit), West Bengal, Treasury Buildings, 2, Government Place West, Kolkata – 700001.
3. Accountant General (Receipt Works & Local Bodies Audit), West Bengal, CGO Complex, 3rd MSO Building, 5th Floor, Block DF, Sector I, Salt Lake, Kolkata – 700064.
4. Additional Chief Secretary / Principal Secretary / Secretary, _____ Department. **He is requested to circulate the same to all Directorates / Regional Offices / Societies / PSUs / Statutory Organisations / autonomous Bodies / Parastatals under the administrative control of his Department.**
5. Special Secretary/Additional Secretary/Commissioner/Joint Secretary/Deputy Secretary, Finance Department.
6. Financial Advisor, _____ Department.
7. Director, _____
8. Director of Treasuries & Accounts, West Bengal, Mitra Building, 8, Lyons Range, 3rd Floor, Kolkata – 700001.
9. Pay & Accounts Officer, Kolkata Pay & Accounts Office-I, 81/2/2, Phears Lane, Kolkata – 700012.
10. Pay & Accounts Officer, Kolkata Pay & Accounts Office-II, P-1, Hyde Lane, Kolkata – 700073.
11. Pay & Accounts Officer, Kolkata Pay & Accounts Office-III, Suvanna, SGO Complex, Sector I, Salt Lake, Kolkata – 700064.
12. Commissioner, _____ Division, _____
13. District Magistrate / District Judge / Superintendent of Police, _____
14. Sub-Divisional Officer, _____
15. Treasury Officer, _____
16. Block Development Officer, _____
17. Group ____ / _____ Branch, Finance Department.
18. Sri Sumit Mitra, Network Administrator, Finance (Budget) Department. He is requested to upload copy of this order in the website of Finance Department.



Deputy Secretary to the
Government of West Bengal