



**FINANCE [Salaries] DEPARTMENT**

**G.O.Ms.No.264, Dated 15<sup>th</sup> September 2017.**

*(Heyvilambi, Aavani-30, Thiruvalluvar Aandu 2048)*

**ABSTRACT**

Works Contracts - Payment in Works Contracts Consequent to Introduction of Goods and Service Tax - Orders-Issued.

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**Read:-**

1. The Gazette of India Extraordinary No.12, dated: 12.04.2017.
2. The Gazette of India Extraordinary No.13, dated: 12.04.2017.
3. Tamil Nadu Government Gazette Extraordinary No.189, dated: 23.06.2017.

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**ORDER:**

The Central Goods and Services (CGST) Act 2017, the Integrated Goods and Services (IGST) Act 2017 and the Tamil Nadu Goods and Services (TNGST) Act 2017 have been enacted and enforced from 01.07.2017. Consequently, there has been a complete change in the indirect tax system in the Country and in the State of Tamil Nadu.

2. Certain difficulties have arisen on account of this change of tax regime in Government works contracts. Typically, existing contracts include clauses stating that risk arising due to change in law would be borne by procuring entities. However, it has been brought to notice of the Government that existing works contracts in some departments do not provide for such a clause. Introduction of GST is a major change in tax law. The Government has therefore taken a policy decision that the risk on account of change of tax law in Government works contracts due to introduction of the GST shall be borne by the procuring entity. The Government accordingly will notify detailed guidelines for evaluating the net change in tax liability on contracts for the purpose of payments to be made to the contractors and entering into supplementary agreements with contractors.

3. The Government is also examining the full implications of the GST on works contract and government procurement. The Public Works Department and Highways Department are in the process of revising schedule of rates to separate out taxes subsumed under the new GST regime from the schedule of rates.

**P.T.O.**

4. In the meanwhile, it has come to the notice of the Government that bills of existing contractors are being held up ostensibly due to lack of clarity on the treatment of GST. Delay in payment of bills for part of works already executed by contractors is likely to result in locking of their working capital and slowing down of works. There have also been enquiries and representations from contractors on non-payment of bills presented by them, apart from seeking compensation for increased tax liability on account of implementation of GST.

5. Under the new tax regime, GST (comprising CGST, SGST and IGST) on works contracts for Government work was initially notified at 18 percent. This had resulted in representations from contractors of ongoing works for compensation by procuring entity for increased tax liability over and above the contracted value of work. The difficulties arising out of increased GST on works contracts for Government work was deliberated in the GST Council Meetings held on 20<sup>th</sup> August 2017 and 9<sup>th</sup> September 2017. Consequently, the GST on works contracts for Government work is being reduced to 12 percent. This move more or less balances the taxes on works contracts in the pre GST and post GST regime.

6. Pending notification of guidelines in the matter, the Government now direct that all departments and procuring entities shall make 'on account' payment of bills presented by contractors, restricting the payments to the value due as per existing contract agreements. Any difference on account of final payment due based on the guidelines to be issued and the 'on account' payment made as above may be adjusted from out of the 5 percent amount retained with the procuring entity. The payment of final bill in cases where on account payments have been made shall be made only after the notification of the guidelines.

**(BY ORDER OF THE GOVERNOR)**

**M.A. SIDDIQUE**  
**SECRETARY TO GOVERNMENT (FAC)**

**To**

All Secretaries to Government.

The Secretary, Legislative Assembly, Secretariat, Chennai-9.

The Comptroller, Governor's Household, Raj Bhavan, Chennai-32.

The Governor's Secretariat, Raj Bhavan, Guindy, Chennai-32.

All Heads of Department.

All Collectors / All District Judges / All Chief Judicial Magistrates.

All Departments of Secretariat.

The Principal Accountant General(A&E), Chennai-18

The Accountant General (Audit-1), Chennai-35.

The Accountant General (Audit-II), Chennai-6.

The Accountant General (CAB), Chennai-9.

The Principal Secretary/Commissioner of Treasuries and Accounts, Chennai-15.

All Pay and Accounts Officers/All Treasury Officers.

The Chairman, Tamil Nadu Public Service Commission, Chennai-3.

The Registrar, High Court, Chennai-104.


The Registrars of all Universities.

All State Owned Corporations and Statutory Boards.  
All State Public Sector Undertakings.  
All Co-operative Federations.  
All Autonomous Bodies.  
All Panchayat Unions / Municipalities / Town Panchayats.  
The Commissioner, Corporations of Chennai / Madurai / Coimbatore /  
Tiruchirappalli / Salem / Tirunelveli / Erode / Tiruppur / Vellore /  
Thoothukudi.

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Government, Finance Department, Chennai-9.  
All Sections in Finance Department, Chennai-9.  
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**-/ Forwarded : By Order /-**



**SECTION OFFICER**