



JUDGEMENT

Supreme Court Bars Double Tax on Works Contracts: Major Relief for Principal Contractors Engaging Registered Sub-Contractors

Issued By:	Supreme Court
In Case Of:	M/s Shubham Treats
Order No:	Civil Appeal No. 8318 of 2011
Order Date:	1st Nov 2025

FACTS & OBSERVATIONS

- Skyline Construction & Housing Pvt. Ltd., a registered dealer under KVAT, undertook works contracts, a part of which was **executed through registered sub-contractors who paid VAT on their share of the work.**
- The core issue was whether Skyline, while paying composition tax under Section 15 of the KVAT Act (applicable until 31 March 2006), should **include payments made to such sub-contractors in its taxable turnover.**
- The AAR held that, prior to 1 March 2006, there was no express legal provision permitting exclusion of sub-contractor payments, hence, the **entire contract value, including sub-contracted portion, was taxable in the hands of Skyline.**
- The Karnataka High Court, however, overturned this view, ruling that where the sub-contractor is registered and has already paid VAT, **taxing the same turnover again from the main contractor constitutes double taxation** - contrary to settled tax principles.

JUDGEMENT

- The Supreme Court upheld the High Court's interpretation, confirming that **taxing both the principal and sub-contractor on the same value is legally untenable** and amounts to impermissible double taxation.
- The Court reiterated that in a works contract, **ownership in goods used by the sub-contractor is transferred directly to the contractee** - not routed through the main contractor - thus, the value addition occurs only once.
- Relying on the "accretion principle," the Court emphasized that **taxation must align with actual flow of goods and services**; value once taxed in the hands of a sub-contractor cannot be taxed again under a composition scheme.
- This ruling provides finality under KVAT but also carries interpretative weight under GST, reinforcing the principle that **tax should follow value addition and must not be duplicated across contractual tiers**.

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