

Topic - Composition Scheme in GST

The composition scheme is an alternative method of levy of tax designed for small tax payers whose turnover is up to prescribed limit.

Small tax payers with an aggregate turnover of Rs 1.5 Cr shall be eligible for composition levy.

1. Advantages of Composition Scheme

The biggest advantage of composition levy is suppliers need not worry about the classification of their goods or services or both, the rate of GST applicable on their goods or services or both. They are not required to raise any tax invoice, but simply need to issue bill of supply wherein tax shall be charged from the recipient.

An eligible person opting to pay tax under the composition scheme shall instead of paying tax on every invoice at the specified rate, pay tax at a prescribed percentage of his turnover every quarter. At the end of the quarter, he would pay tax without availing the benefit of Input Tax Credit. Return is to be filled Annually by the composition tax payer.

2. Intimation of opting for Composition Levy (Rule 3 & 4)

(i) Intimation by person applying for registration:

Any person who is not registered and applies for registration may be given an option to pay tax under composition scheme in part B of the Registration Form **GST REG 01**. It would be considered as an intimation to pay tax under composition scheme. Such intimation shall be considered only after the grant of registration to the applicant and his option to pay tax under composition levy shall be effective from the date from which registration is effective.

(ii) Intimation by a Registered Person:

A registered person who opts to pay tax under composition levy scheme shall electronically file an intimation in prescribed form on the GST common portal, prior to the commencement of the FY for which said option is exercised.

He shall also furnish the prescribed form in accordance with the provisions of rule 44(4) of CGST Rules, 2017 within 60 days from the commencement of the relevant FY.

Any intimation in respect of any place of business in a State/UT shall be deemed to be an intimation in respect of all other places of business registered on the same PAN.

The option to pay tax under Composition scheme shall be effective from the beginning of the FY.

A person engaged in marginal supply of services other than restaurant service along with the supply of goods or restaurant services {Second proviso to section 10(1) read with section 10(2)2}.

Fundamentally, the composition scheme can be availed in respect of good and only one service that is restaurant service. However, there are cases where a manufacturer/trader is also engaged in supply of services other than restaurant service though the percentage of such supply of services is very small as compared to supply of goods. There may also be cases where a restaurant service provider may also be engaged in supplying a small percentage of other services.

With a view to enable such taxpayers to avail the benefit of composition scheme, second proviso to section 10(1) permits marginal supply of services (other than restaurant services) for a specified value along with the supply of goods and/or restaurant service, as the case may be. The specified value is value not exceeding:

(1) 10% of the Turnover in a State/Union territory in the **preceding** Financial Year.

OR

(2) Rs 5 Lakhs

WHICHEVER IS HIGHER

Thus, it can be inferred that where the turnover of a registered person opting for composition scheme is up to Rs 50 Lakhs in the preceding Financial Year, he can supply services (other than restaurant services) up to a maximum value of Rs 5 Lakhs in the current Financial Year. Further where the turnover of a registered person opting for composition scheme is more than Rs 50 Lakhs and

up to Rs 1.5 Cr in the preceding Financial Year, he can supply services (other than restaurant services) in the current financial year up to a maximum value of 10% of the turnover in a state/union territory in the preceding financial year.

3. Effective date for composition levy

(1) The option to pay tax under section 10 shall be effective from the beginning of the financial year, where the intimation is filed under sub-rule (3) of rule 1 and the appointed date where intimation is filed under sub-rule (1) of the said rule.

2(2) The intimation under sub-rule (2) of rule 1 shall be considered only after grant of registration to the applicant and his option to pay tax under section 10 shall be effective from the date fixed under sub-rule (2) or (3) of rule Registration.3

4. Conditions and restrictions for composition levy

(1) The person exercising the option to pay tax under section 10 shall comply with the following conditions:

(a) he is neither a casual taxable person nor a non-resident taxable person;

(b) the goods held in stock by him on the appointed day have not been purchased in the course of inter-State trade or commerce or imported from a place outside India or received from his branch situated outside the State or from his agent or principal outside the State, where the option is exercised under sub-rule (1) of rule 1;

(c) the goods held in stock by him have not been purchased from an unregistered person and where purchased, he pays the tax under sub-section (4) of section 9;

(d) he shall pay tax under sub-section (3) or sub-section (4) of section 9 on inward supply of goods or services or both received from un-registered persons;

(e) he was not engaged in the manufacture of goods as notified under clause (e) of sub-section (2) of section 10, during the preceding financial year;

(f) he shall mention the words “composition taxable person, not eligible to collect tax on supplies” at the top of the bill of supply issued by him; and

(g) he shall mention the words “composition taxable person” on every notice or signboard displayed at a prominent place at his principal place of business and at every additional place or places of business.

(2) The registered person paying tax under section 10 may not file a fresh intimation every year and he may continue to pay tax under the said section subject to the provisions of the Act and these rules.

5. Validity of composition levy

(1) The option exercised by a registered person to pay tax under section 10 shall remain valid so long as he satisfies all the conditions mentioned in the said section and these rules.

(2) The person referred to in sub-rule (1) shall be liable to pay tax under sub-section (1) of section 9 from the day he ceases to satisfy any of the conditions mentioned in section 10 or these rules and shall issue tax invoice for every taxable supply made there after and he shall also file an intimation for withdrawal from the scheme in FORM GST CMP-04 within seven days of occurrence of such event.

(3) The registered person who intends to withdraw from the composition scheme shall, before the date of such withdrawal, file an application in FORM GST CMP-04, duly signed, electronically on the Common Portal.

(4) Where the proper officer has reasons to believe that the registered person was not eligible to pay tax under section 10 or has contravened the provisions of the Act or these rules, he may issue a notice to such person in FORM GST CMP-05 to show cause within fifteen days of the receipt of such notice as to why option to pay tax under section 10 should not be denied.

(5) Upon receipt of reply to the show cause notice issued under sub-rule (4) from the registered person in FORM GST CMP-06, the proper officer shall issue an order in FORM GST CMP-07 within thirty days of receipt of such reply, either accepting the reply, or denying the option to pay tax under section 10 from the date of option or from the date of the event concerning such contravention, as the case may be.

(6) Every person who has furnished an intimation under sub-rule (2) or filed an application for withdrawal under sub-rule (3) or a person in respect of whom an order of withdrawal of option has been passed in FORM GST CMP-07 under sub-rule (5), may electronically furnish at the Common Portal, either directly or through a Facilitation Centre notified by the Commissioner, a statement in FORM GST ITC-01 containing details of the stock of inputs and inputs contained in semi-finished or finished goods held in stock by him on the date on which the option is withdrawn or denied, within 30 days, from the date from which the option is withdrawn or from the date of order passed in FORM GST CMP-07, as the case may be.

(7) Any intimation for withdrawal under sub-rule (2) or (3) or denial of the option under sub-rule (5) in respect of any place of business in any State or Union territory, shall be deemed to be an intimation in respect of all other places of business registered on the same PAN

6. Turnover Limit for composition Limit

Section 10 of CGST act provides the turnover limit of Rs 50 Lakh for becoming eligible for composition levy. However section 10(1) empowers the government to increase the said limit of Rs 50 Lakh upto Rs 1.5 Cr , on the recommendation of the council. **As per notification number 14/2019 the turnover limit for composition levy has been increased from Rs 50 Lakhs to Rs 1.5 Cr.**

However, the said notification further stipulates that the turnover limit for composition levy shall be Rs 75 Lakhs in respect of 8 Special Category states which are :

1. Arunachal Pradesh
2. Uttarakhand
3. Manipur
4. Meghalaya
5. Mizoram
6. Nagaland
7. Sikkim
8. Tripura

While computing the threshold limit of Rs 1.5 Cr ,inclusions and exclusions from the 'aggregate turnover are as follows:

Inclusions:

Value of all outward supplies : Taxable supplies ,Exempt supplies, Exports, Inter-state supplies of persons having the same PAN be computed on all India basis.

Exclusions :

CGST , SGST ,UTGST, IGST,CESS, Value of inward supplies on which tax is payable under reverse charge.

Rates of Tax for Composition Scheme

1. Manufacturers other than manufacturers of such goods as may be notified by the government, i.e., ice cream, pan masala and tobacco

= 0.5% of the turnover in the state/union territory.

2. Suppliers making supplies of restaurant services

= 2.5% of the turnover in the state/union territory.

3. Any other supplier eligible for composition levy under section 10

= 0.5% of the turnover of the taxable supplies of goods and services in the state/union territory.