

# COMPOSITION SCHEME UNDER GST



Dr. Mukesh H. Kaushik  
Dada Ramchand Bakhru Sindhu  
Mahavidyalaya, Nagpur

# WHAT IS COMPOSITION SCHEME?

- **Section 10 of the CGST Act, 2017** provides for composition levy to such person;
- Such person means whose turnover below a certain limit;
- Composition Scheme is a simple and easy scheme under GST because of taxable person who opt composition scheme is not required to maintain detailed records and filing of detailed returns.
- Composition levy would be generally opted by persons who are supplying goods & services or both to the end consumer.
- Have to pay a fixed percentage of turnovers as fees in lieu of tax and be relieved from the detailed compliance of the provisions of law

# Who can opt for Composition Scheme?

- A taxpayer whose turnover is below Rs 1.5 crore can opt for Composition Scheme. In case of North-Eastern states and Himachal Pradesh, the limit is now Rs 75 lakh;
- This limit has been revised two three times earlier this was 1.0 Crore, 75 Lakhs and 50 Lakhs;
- As per the CGST (Amendment) Act, 2018, a composition dealer can also supply services to an extent of ten percent of turnover, or Rs.5 lakhs, whichever is higher. This amendment will be applicable from the 1st of Feb, 2019;
- Turnover of all businesses registered with the same PAN should be taken into consideration to calculate turnover
- As per 32nd GST Council Meeting held on 10th Jan 2019, Service Providers can opt into the Composition Tax Scheme, and the Government has set the threshold turnover for service providers at Rs. 50 lakhs to be eligible for this scheme

# Who cannot opt for Composition Scheme?

- Manufacturer of ice cream, pan masala, or tobacco
- A person making inter-state supplies
- A casual taxable person or a non-resident taxable person
- Businesses which supply goods through an e-commerce operator
- Any good which are not liable for tax under the act

# What are the conditions for availing Composition Scheme?

- No Input Tax Credit can be claimed by a dealer opting for composition scheme.
- The dealer cannot supply GST exempted goods.
- The taxpayer has to pay tax at normal rates for transactions under the Reverse Charge Mechanism.
- If a taxable person has different segments of businesses (such as textile, electronic accessories, groceries, etc.) under the same PAN, they must register all such businesses under the scheme collectively or opt out of the scheme.
- The taxpayer has to mention the words 'composition taxable person' on every notice or signboard displayed prominently at their place of business.
- The taxpayer has to mention the words 'composition taxable person' on every bill of supply issued by him.
- As per the CGST (Amendment) Act, 2018, a manufacturer or trader can now also supply services to an extent of ten percent of turnover, or Rs.5 lakhs, whichever is higher. This amendment will be applicable from the 1st of Feb, 2019

# How can a taxpayer opt for composition scheme?

- Registration under GST law is compulsory for opting for the Composition scheme;
- A person who is registered under existing laws and has obtained a provisional registration under GST has to file an electronic intimation in the FORM GST CMP-01 on the common portal;
- Further such person has to furnish a statement containing details of stock including the inward supply of goods received from unregistered persons, held by him on the day preceding the date from which he opts for the scheme, in FORM GST CMP-03, within 60 days (or as extended by the commissioner) of the date from which the option for composition levy is exercised;
- A person who is not registered under existing law but applies for fresh registration under Rule 8 of the CGST Rules, 2017 may opt for the scheme by providing necessary information under part B of FORM GST REG-01
- Any registered person who wants to opt for composition levy has to file an electronic intimation in the FORM GST CMP-02 prior to the commencement of financial year for which the option to pay tax under composition levy is exercised and also has to furnish a statement in FORM GST ITC-03 in accordance with the sub rule (4) of Rule 44 of CGST Rules, 2017, within 90 days from the commencement of the relevant financial year

# What are the GST rates for a composition dealer?

- Following chart explains the rate of tax on turnover applicable for composition dealers:

<b>Business Type</b>	<b>CGST</b>	<b>SGST</b>	<b>Total</b>
Manufacturer and Trader	0.5%	0.5%	1.0%
Restaurants not serving alcohol	2.5%	2.5%	5.0%
Other Service Providers	3.0%	3.0%	6.0%

- Composition-Scheme---Applicable-GST-Rates
- As per notification dated 01.01.2018, turnover in case of traders has been defined as ‘Turnover of taxable supplies of goods’

# How should GST payment be made by a composition dealer?

- GST Payment has to be made out of pocket for the supplies made.
- The GST payment to be made by a composition dealer comprises of the following:
  - GST on supplies made.
  - Tax on reverse charge
  - Tax on purchase from an unregistered dealer\*
- \*Only on the specified categories of goods and services and well as the notified class of registered persons with effect from 1st Feb 2019 but is yet to be notified. Hence, not applicable until then.



# What are the returns to be filed by a composition dealer?

- A dealer is required to file a quarterly return GSTR-4 by 18th of the month after the end of the quarter. (History)
- Also, an annual return GSTR-9A has to be filed by 31st December of next financial year. (History)
- Also, note that a dealer registered under composition scheme is not required to maintain detailed records.
- As Per 37th GST Council Meeting held on 20<sup>th</sup> September 2019 GSTR9A have been waived off completely for F.Y. 2017-2018 and 2018-2019
- GSTR-4 is not to be filed only payment has to be made quarterly and an annual return is to be filed.

# Pros and Cons of Composition Scheme?

## **PROS**

- Lesser compliance (returns, maintaining books of record, issuance of invoices)
- Limited tax liability
- High liquidity as taxes are at a lower rate

## **CONS**

- A limited territory of business. The dealer is barred from carrying out inter-state transactions
- No Input Tax Credit available to composition dealers
- The taxpayer will not be eligible to supply exempt goods or goods through an e-commerce portal

# Validity of the composition levy scheme

- A person opting for the composition levy scheme can continue to pay tax under the said scheme as long as he satisfies the eligibility criteria and conditions related to the scheme and do not require to file a fresh application every year.
- But, such a person shall be liable to pay tax under subsection (1) of section 9 of the CGST Act, 2017 from the day he ceases to satisfy any of the conditions and shall issue tax invoice for every taxable supply made thereafter and he shall also file an intimation for withdrawal from the scheme.
- Conditions which may render a person in-eligible for the scheme A person is in-eligible for the scheme, if
  - He wrongly opts for the scheme;
  - His turnover exceeds Rs. 1.5 crore;
  - He contravenes eligibility criteria or any of the conditions of the scheme.

# Withdrawal from the composition levy scheme and procedure thereafter

- A registered person who intends to withdraw from the scheme has to file an intimation for withdrawal from the scheme in the FORM GST CMP-04, before the date of such withdrawal.
- After opting out of the scheme, he has to pay tax as normal tax payer and issue tax invoice for every taxable supply made thereafter. Subsequently he has to forward a statement in FORM GST ITC-01 containing details of the stock of the inputs and inputs contained in semi-finished or finished goods held in stock by him on the date on which the option is withdrawn. The said statement has to be submitted on the common portal within 30 days from the date of withdrawal.

# Composition Scheme for Service Providers

- The composition scheme for service providers gives an option to taxpayers rendering services having aggregate annual turnover up to Rs. 50 lakh to pay tax at a nominal rate, subject to conditions.
- The following persons can opt into this scheme:
  - Supplier of services only (i.e., service providers)
  - Suppliers of goods and services (i.e., those suppliers who were not eligible for composition scheme earlier)
-



- THANK YOU