

Composition Scheme under GST



Goods and Services Tax is set to bring along a new regime of business compliance in India. Large organizations have the requisite resources and expertise to address these requirements. On the flip side, many startups and Small and Medium Enterprises (SMEs) may struggle to comply with these provisions. To resolve such scenarios, the government has introduced the Composition Scheme under GST.

The government has come up with composition scheme wherein any taxpayer whose turnover is below Rs 75 lakhs can choose not to register as a normal taxpayer and register as a composition dealer.

In the case of the following States, the limit of turnover is Rs. 50 lakhs:-

- Arunachal Pradesh
- Assam
- Manipur
- Meghalaya
- Mizoram
- Nagaland
- Sikkim
- Tripura
- Himachal Pradesh

Businesses dealing only in goods can opt for composition scheme. Service providers have been kept outside the scope of this scheme. However, restaurant sector taxpayers may also opt for the scheme. This holds true if your annual turnover is below Rs 75 Lakhs.

Who can
opt for
Composition
Scheme?

How will the aggregate turnover be computed for the purpose of composition?

Aggregate turnover will be computed on the basis of turnover on an all India basis and will include value of all taxable supplies; exempt supplies and exports made by all persons with same PAN.

Advantages of registering under GST Composition Scheme

Below are some reasons why you should choose to get registered as a supplier under the composition scheme:

- Lower Compliance: the taxpayer is required to furnish quarterly return only.
- Ease of doing Business: Reduced tax liability and limited compliance will make it easy for small businesses to grow and flourish.
- Limited Tax Liability: Another benefit of getting registered under the composition scheme is that the tax rate for such taxpayer is nominal under the GST Law.

What tax rate is applicable on a composition dealer?

A registered taxpayer, who is registered under the Composite Scheme will pay tax at a rate of 2% for manufacturer, 5% for restaurant sector and 1% for other suppliers of turnover.

S. No.	Category of Registered person	Rate of Tax
1	Manufacturers	2% (1% Central tax plus 1% State tax) of the turnover
2	Restaurant Services	5% (2.5% Central tax plus 2.5% SGST) of the turnover
3	Traders or any other supplier eligible for composition levy	1% (0.5% Central tax plus 0.5% State tax) of the turnover

Can a composition dealer avail ITCs?

A Composition Dealer is not allowed to avail input tax credit of GST paid to his suppliers.

Is a composition dealer required to issue tax invoice?

A composition dealer supplying goods cannot issue tax invoice as he cannot charge tax from the recipient. Therefore, he shall issue 'bill of supply' in place of tax invoice.

What penalties are applicable on Composition Dealer for any default in tax payment?

If a composition dealer has wrongly availed the benefit under the composition scheme, then such a person shall be liable to pay all the taxes which he would have paid under the normal scheme. Also, he shall be liable to pay a penalty equivalent to the amount of tax payable. This penalty shall not be levied without giving a show cause notice to the dealer.

Are there any accounts and records to be maintained by a composition dealer?

A dealer registered under composition scheme is not required to maintain detailed records as a normal taxpayer

Which all Returns are to be filed by a composition dealer?

The taxable person is required to furnish only one return i.e. GSTR-4 on a quarterly basis before 18th of the month succeeding the quarter during which the supplies were made and an annual return in FORM GSTR-9A.

COMPOSITION SCHEME

Are ITCs available if a business transits from Composition Scheme under current regime to Regular Taxation under GST?

Taxpayers registered under composition scheme under the current regime will be allowed to take credit of inputs held in stock, semi-finished goods or in-finished goods on the day immediately preceding the date from which they opt to be taxed as a regular tax payer.

What are the conditions for availing input credit on stock lying at the time of transition?

You must fulfill the conditions to avail credit on inputs at the time of transition from composition scheme to normal scheme:

- Such inputs or goods are intended to be used for making taxable supplies under GST law.
- Taxpayer was eligible for CENVAT Credit on such goods under the previous regime, however, couldn't claim it being under composition scheme.
- Such goods are eligible for input tax credit under GST regime.
- The taxpayer has legal evidence of input tax paid on such goods.
- Such invoices were issued within a period of 12 months from GST applicable date.

Are there any Drawbacks of Registering under the GST Composition Scheme?

Following are some drawbacks of registering under the GST Composition Scheme:

- **Only Intra state supplies:** A taxpayer registered under the composition scheme is barred from carrying out inter-state transactions and cannot offer import-export of goods and services.
- **Pay tax from your own pocket:** Although the rate of composition/ compounding tax is very low, a taxpayer under this scheme is not allowed to recover such tax from his buyer. Consequently, the burden of such tax is kept on the taxpayer himself and this has to be paid out of his own pocket.
- **Not applicable to the supplier supplying goods through E-commerce:** A supply made through e-commerce portal is outside the scope of composition scheme