

# Composition Levy Scheme in GST

## 1. Composition Levy Scheme under GST law.

Composition levy scheme is a very simple, hassle free compliance scheme for small taxpayers. It is a voluntary and optional scheme.

### **Benefits of composition scheme**

- Easy compliance as no elaborate accounts and records to be maintained
- Simple Quarterly Return
- Quarterly payment of tax

Provisions related to composition levy have been provided under section 10 of the Central GST Act, 2017 and Chapter 2 of the CGST Rules, 2017. Under this scheme, a registered taxable person, whose aggregate turnover does not exceed Rs. One crores (Rs. 75 lakh for special category States except J & K and Uttrakhand) in the financial year 2016-17 may opt for this scheme.

A taxpayer registered under composition levy scheme

has to pay an amount equal to certain fixed percentage of his annual turnover as tax to the government. This tax has to be paid on quarterly basis. Such taxpayer does not have to maintain elaborate accounts and records and instead of two monthly statements and a return (which a normal taxpayer has to file under GST), he has to file a simple quarterly return in FORM GSTR-04. The time Limit for GSTR-4 for the quarter July to September, 2017 has been extended to 24<sup>th</sup> December, 2017 vide Notification No. 59/2017-CGST.

However, upon opting for this scheme, he cannot issue taxable invoice under GST law and can neither collect GST from his customers nor can claim Input Tax credit on his purchases.

## **2. Method to calculate Aggregate Turnover**

Aggregate turnover is computed on all India basis for a person having same Permanent Account Number (PAN). It is sum of value of all outward supplies falling in the following four categories:

- Taxable supplies
- Exempt supplies
- Exports of goods or services or both
- Inter-state supplies.

### **but excludes**

- the value of inward supplies on which tax is payable by a person on reverse charge basis &

- taxes including cess paid under GST law.
- CBEC vide Order No. 01/2017-Central Tax dated 13<sup>th</sup> October, 2017 has clarified that a person supplying any exempt services including services by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount, shall not be ineligible for the composition scheme. In computing his aggregate turnover in order to determine his eligibility for composition scheme, value of supply of the exempt services including services by way of extending deposits, loans or advances shall not be taken into account.

### **3. Registration and intimation under the 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 ([www.gstn.gov.in](http://www.gstn.gov.in)). He can file this intimation either before the appointed day (i.e. day on which GST came into force 01/07/2017) or within 30 days (or as extended by the commissioner) of the appointed day (01/07/2017), (which was later extended up to 16/08/2017). If he intimates after the appointed day, he shall not collect GST and issue bill of supply from the appointed day. 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. As per Order No. 11/2017-GST dated 21.12.2017, the period for intimation of details of stock in FORM GST CMP-03 is extended till 31<sup>st</sup> January, 2018

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.

A person having a single PAN and registered in more than one State under GST can opt for the scheme, provided he meets all the conditions of the scheme, only if all such registered persons opt for the Composition scheme. A registered person cannot choose to opt for the Composition scheme in one state and not in other states. Further, an intimation for withdrawal from the scheme; or denial of the scheme with respect to any one registered person under the same PAN will be applicable for all such registered persons.

#### **4. Effective Date for composition levy**

Effective date for the taxpayers who are already registered under the existing laws and obtained provisional registration under GST law and intimates about opting for the scheme either before the appointed day (01/07/2017) or within 30 days (or as extended) of the appointed day, shall be the appointed date.

Effective date for registered taxpayer who intimates about opting for the scheme under FORM GST CMP-02, shall be the beginning of the financial year

Effective date for a person who applies for fresh registration under Rule 8 of the CGST Rules, 2017 by providing necessary information under part B of FORM GST REG-01, shall be the effective date of registration as per sub rule 2 or 3 of Rule 10 of CGST Rules, 2017.

#### **5. Persons who are not eligible for the scheme.**

Barring few exceptions, all registered taxable persons whose aggregate turnover has not exceeded Rs. One crore (Rs. 75 lakhs for special category states except J & K and Uttrakhand) in the financial year 2016-17 are eligible to opt for this scheme. List of taxable persons who are not eligible for the scheme is as below:

- i. A casual taxable person i.e. a person who occasionally undertakes supplies in a State or Union Territory where he has no fixed place of business.
- ii. A non-resident Taxable person i.e. a person who occasionally undertakes supplies but has no fixed place

- of business or residence in India.
- iii. A supplier of services except a person engaged in supply of restaurant service.
  - iv. A person engaged in providing inter-state supply of goods.
  - v. A person engaged in supply of non-taxable goods i.e. goods which are not taxable under GST law
  - vi. A person engaged in supply of goods through an Electronic Commerce Operator (ECO) who is required to collect Tax at source under section 52 of the CGST Act.
  - vii. 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 registration under the Composition Scheme has been taken.
  - viii. the goods held in stock by him have not been purchased from an unregistered supplier and where purchased, he pays the tax under the reverse charge mechanism.
  - ix. A person engaged in manufacturing of goods notified under sec 10 (2) (e) of the CGST Act either in the year 2016-17 or later. Following goods have been notified for which composition scheme is not available.

<i>S. No.</i>	<i>Classification (Tariff item/ Chapter)</i>	<i>Description</i>
1	2105 00 00	<i>Ice cream and other edible ice, whether or not containing cocoa</i>
2	2106 90 20	<i>Pan masala</i>
3	24	<i>Tobacco and manufactured tobacco substitutes</i>

## 6. Rate of Tax under the scheme

There are three rates prescribed for three different categories of suppliers.

- An eligible Manufacturer has to pay 1% (0.5% CGST and 0.5% SGST/UTGST) of turnover in a state or Union Territory, as the case may be.
- An eligible person engaged in making supplies mentioned in clause (b) of para 6 of Schedule II of the CGST Act (supplier of restaurant Service) has to pay 5% (2.5% CGST and 2.5% SGST/UTGST) of turnover in a state or Union Territory, as the case may be.
- An eligible person engaged in any other supply has to pay 1% (0.5% CGST and 0.5% SGST/UTGST) of turnover of taxable supplies of goods in a state or Union Territory, as the case may be.

## 7. Bill of Supply

A taxable person opting for the scheme has to issue bill of

supply as he is not eligible to issue taxable invoice under GST. He has to mention the words “composition taxable person, not eligible to collect tax on supplies” at the top of every bill of supply issued by him.

## **8. Conditions & Restrictions under the scheme**

A person opting for the scheme has to adhere to the following conditions

- Issue bill of supply in the prescribed manner
- Pay all taxes on purchases including taxes to be paid on reverse charge basis
- Don't claim input tax credit of purchases
- Mention the words “composition taxable person” on every notice board or signboard displayed at the prominent place at his every place of business.
- Where ever a person, registered under any of the existing laws, and who has been given provisional registration, gives an intimation for the composition scheme, he shall not be allowed the composition scheme in case the goods held in stock by him on the appointed day have 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.
- Withdraw from the scheme if not eligible



## **9. 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 sub-section (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.

## **10. 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. One crore (In the case of 9 North East and special category states, namely Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Himachal Pradesh, the limit of turnover is Rs. 75 Lakhs in the preceding financial year)
- he contravenes eligibility criteria or any of the conditions of the scheme

## **11. 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. A registered person who ceases to satisfy any provision of the scheme has to file an intimation for withdrawal from the scheme in the FORM GST CMP-04, within 7 days of occurrence of such event. 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. He shall be entitled to take credit of input tax in respect of inputs held in stock, inputs contained in semi-finished or finished goods held in stock and on capital goods on the day immediately preceding the date from which he becomes liable to pay tax as normal taxpayer under section 9 of the CGST Act, 2017.

## **12. Action for wrongly opting the scheme or for contravention of any provision of the scheme**

In the scenario, when the proper officer has reason to believe that the registered person has wrongly opted for the scheme or he has contravened the provisions of the scheme, then he will seek a reply by issuing a show cause notice to such person in the FORM GST CMP-05. This notice is to be replied within 15 days of receipt of the same. Thereafter within 30 days of receipt of reply, officer has to issue an order in FORM GST CMP-07, either accepting the reply or denying the option to pay tax under the scheme.

Subsequently the registered person who has been denied the option to pay tax under the scheme 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 denied. The said statement has to be submitted on the common portal within 30 days from the date of denial order passed in the FORM GST CMP-07.

The delinquent taxpayer will be liable to pay the due tax and penalty. However, no adverse action will be taken without following the principles of natural justice.

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