

Conclusion:

Goods and Services Tax has the potential to boost revenue for the government, lower the budget deficit, which means more funds will be generated to spend on the welfare of the society and people. There will always be a section of traders, dealers or taxpayers who will find it difficult to maintain books of accounts or fulfil the compliance requirements of tax laws. This may happen due to the small size of their business or due to the nature of their business. To give benefit to these businesses, Composition Levy scheme has been launched for such small taxpayers.

The scheme is quite beneficial to small suppliers and intra-state local suppliers as it prevents them from various procedural compliances and gives a hassle free working environment. In pre-GST era, to make compliances better for small businesses, States have provisions in their VAT law about the Composition Levy scheme. Similarly, even in GST, Composition Levy scheme has been introduced to safeguard the interests of small businesses.

- (c) Every Composition taxpayer has to furnish a quarterly statement containing the details of payment of self-assessed tax in **FORM GST CMP-o8**, till the 18th day of the month succeeding such quarter.
- (d) The taxpayer need to furnish a yearly return in **FORM GSTR-4**, till the 30th day of April following the end of such financial year.

Action for wrongly opting the scheme or for contravention of any provision of the scheme:

- (a) 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-o5**. 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-o7**, either accepting the reply or denying the option to pay tax under the scheme.
- (b) 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-o1** 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-o7**.
- (c) 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.

Benefits under GST Composition Levy Scheme:

- (a) **Less Compliance:** Under the normal scenario, a taxpayer under GST has to file monthly / quarterly returns and yearly returns. Further, he has to upload details of invoices issued by him during the period. For small suppliers and business, it may be difficult. Whereas under Composition Levy scheme, quarterly payment of tax and yearly filing of return have been prescribed. This will ease the compliance burden for SMEs, and they can focus more on their business rather than getting occupied in compliance procedures.
- (b) **Reduce tax liability:** Another advantage of being registered with Composition Levy scheme is the rate structure. While most of the services fall under either 12% or 18% GST bracket, Composition service providers need to pay only 6% of supplies made by them.

- (c) **High Liquidity:** For normal taxpayers, most of the working capital is blocked as Input Tax Credit because the taxpayer can avail ITC only if his supplier has filed the return. The supplier has to pay tax at standard rate and the Credit of Input Tax will be availed only when his supplier files the return. In Composition Levy scheme, the taxpayer need not worry about his supplier filing return as he cannot take the credit and will pay tax at nominal rate.

Limitations of GST Composition Levy Scheme:

There are some limitations under GST Composition Levy scheme, which a taxpayer must be aware of before opting for the scheme. These are:

- (a) **No credit of Input Tax:** Any taxpayer registered under Composition Levy scheme will not be eligible to take Credit of Input Tax paid on purchases. Also, the buyer of taxpayer’s supplies will not get the credit of taxes paid by taxpayer.
- (b) **No Inter-State business:** The major drawback of the scheme is that the taxpayer cannot deal in inter-state supplies or affect exports of goods and services. He is barred from performing such actions which limit his territory for expansion and can only conduct local or intra-State transactions.
- (c) **Pay tax form own pocket:** Since the taxpayer is not allowed to charge tax from his buyer, he has to pay tax out of his own pocket, despite the rate being low. He is not even allowed to issue a tax invoice, resulting in the burden on the taxpayer to pay tax.

Change in due date for filing of return in FORM GSTR-4 for composition taxpayers from 30th April to 30th June:

The GST Council has recommended an amendment in clause (ii) of sub-rule (1) of Rule 62 of CGST Rules, 2017 and FORM GSTR-4 to extend the due date for filing of return in FORM GSTR-4 for composition taxpayers from 30th April to 30th June following the end of the financial year. This will apply for returns for the financial year 2024-25 onwards. The same would give more time to the taxpayers who opt to pay tax under composition levy to furnish the said return.

GST
Composition Levy Scheme



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Composition
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(Updated as on November 2024)



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Composition Levy Scheme under GST law

The Composition Levy is an alternative method of levy of tax designed for small taxpayers whose turnover is up to prescribed limit. The objective of Composition Levy scheme is to bring simplicity, ease the compliance burden and reduce cost of compliance for the small taxpayers. The scheme is optional. It essentially provides for a turnover tax regime for such taxpayers, with facility for filing of return on annual basis along with quarterly payment of tax. Under this scheme, a registered taxable person, whose Aggregate Annual Turnover has not exceeded ₹ 1.50 Cr in case of goods (₹ 75 Lakh in case of Uttarakhand and 7 North Eastern States) in the previous financial year, may opt for this scheme.

Composition Levy scheme has been made available for suppliers of services (to those who are otherwise not eligible under Section 10(1) of the CGST Act) with a tax rate of 6% (3% CGST + 3% SGST) having an Aggregate Annual Turnover in the preceding FY up to ₹ 50 Lakh.

An eligible manufacturer / service provider registered under Composition Levy scheme has to pay an amount equal to certain percentage of his turnover in the State or Union Territory, as tax to the government. However, any other eligible supplier (e.g. trader) has to pay an amount equal to certain percentage of his turnover of **taxable supplies** of goods and services in the State or Union territory. This tax has to be paid on quarterly basis. Such taxpayer does not have to maintain elaborate records and instead of regular monthly returns, which a normal taxpayer has to file under GST, he has to file a simple annual return in **FORM GSTR-04**. However, upon opting for this scheme, he cannot issue taxable invoice under GST law and he can neither collect GST from his customers nor can claim Input Tax Credit on his purchases.

Method to calculate Aggregate Annual Turnover:

Aggregate Annual 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:

- (a) Taxable supplies;
- (b) Exempt supplies;
- (c) Exports of goods/services;
- (d) Inter-state supplies;

but excludes:

- (e) the value of inward supplies on which tax is payable by a person on reverse charge basis;
- (f) taxes including cess paid under GST law;
- (g) the value of exempt supply of services provided by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount.

Registration and Intimation under the scheme:

- (a) Registration under GST law is compulsory for opting for this scheme.
- (b) A person who was not registered under existing law but applies for fresh registration may opt for the scheme by providing necessary information under **Part-B** of **FORM GST REG-01**.
- (c) 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 Rule 44(4) of CGST Rules, 2017, within 60 days from the commencement of the relevant financial year.
- (d) There is no need to file intimation in **FORM GST CMP-02** every year. The intimation once filed would remain valid, as long as the taxpayer is eligible for Composition Levy scheme under GST.

Effective Date for Composition Levy:

- (a) Effective date is the beginning of the financial year for registered taxpayer who intimates about opting for the scheme under **FORM GST CMP-02**.
- (b) Effective date is the date of registration for a person who applies for new registration under Rule 8 (1) of CGST Rules, 2017 by providing necessary information under **Part-B** of **FORM GST REG-01**.

Persons who are not eligible for the scheme:

Barring few exceptions, all registered taxable persons whose Aggregate Annual Turnover has not exceeded the eligibility limit (as mentioned above) in the previous financial year are eligible to opt for this scheme. List of taxable persons who are not eligible for the scheme is as below:

- (a) 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;
- (b) A Non-Resident Taxable Person i.e. a person who occasionally undertakes supplies but has no fixed place of business or residence in India;
- (c) A person engaged in providing inter-state supply of goods and services or both;
- (d) A person engaged in supply of non-taxable goods i.e. goods which are not taxable under GST law;
- (e) 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;

- (f) A person engaged in manufacturing of goods notified under Section 10 (2) (e) of the CGST Act 2017.

Rate of Tax under the scheme:

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

- (a) An eligible manufacturer has to pay 1% (0.5% CGST + 0.5% SGST/UTGST) of turnover in a state or Union Territory, as the case may be.
- (b) All eligible service providers (or goods and service suppliers) have to pay 6% (3% CGST + 3% SGST / UTGST) of turnover in a State or Union Territory, as the case may be.
- (c) An eligible person engaged in making supplies mentioned in clause (b) of para 6 of Schedule II of the CGST Act (provider of restaurant Service) has to pay 5% (2.5% CGST + 2.5% SGST/UTGST) of turnover in a state or Union Territory, as the case may be.
- (d) All other eligible suppliers (i.e. traders) have to pay 1% (0.5% CGST + 0.5% SGST/UTGST) of the taxable turnover in a State or Union Territory, as the case may be.

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.

Conditions & Restrictions under the scheme:

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

- (a) Issue bill of supply in the prescribed manner;
- (b) pay all taxes on purchases including taxes to be paid on reverse charge basis, if any;
- (c) don’t claim Input Tax Credit of purchases;
- (d) mention the words “Composition Taxable Person” on every notice board or signboard displayed at the prominent place at his every place of business;
- (e) withdraw from the scheme if not eligible.

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/she satisfies the eligibility criteria and conditions related to the scheme.

Conditions which may render a person ineligible for the scheme:

A person is ineligible for the scheme, if

- (a) he wrongly opts for the scheme;
- (b) his turnover exceeds the eligible limit for the scheme (as detailed above);
- (c) he contravenes eligibility criteria or any of the conditions of the scheme.

Withdrawal from the Composition Levy scheme and procedure thereafter:

- (a) 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.
- (b) 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.
- (c) After opting out of the scheme, he has to pay tax as normal taxpayer and issue tax invoice for every taxable supply made thereafter.
- (d) 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.
- (e) 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.

Filing of Intimation / Statement / Return:

- (a) The eligible existing registrants can opt in Composition Levy scheme by submitting **FORM GST CMP 02** on common portal. The new registrant can opt in Composition Levy scheme for services at the time of submitting application for registration in **FORM GST REG 01** on common portal.
- (b) At the time of opt in Composition Levy scheme by existing taxpayer, a statement in **FORM GST ITC 03** need to be filed by him for reversing the credit of input tax availed on inward supplies by the taxpayer.