

CHAPTER 4

COMPOSITION LEVY

Overview

Section 10: Composition Levy

Notifications

Notification no	Date of issue	Subject
14/2019 CT (Aggregate Turnover)	07.03.2019	<p>The Aggregate turnover limit for composition levy has been increased from ₹50 lakh to ₹1.5 crore vide Notification No. 14/2019 CT dated 07.03.2019.</p> <p><u>Aggregate Turnover limit for Below Special Category States is ₹75 lakh</u></p> <ol style="list-style-type: none"> 1. Arunachal Pradesh Assam (₹1.5 crore) 2. Manipur 3. Meghalaya 4. Mizoram 5. Nagaland 6. Sikkim 7. Tripura 8. Uttarakhand Himachal Pradesh (₹1.5 crore)
2/2019 CT (R) (Mixed supplier of other Services and marginal goods)	07.03.2019	<p>A mixed supplier who is primarily engaged in supplying services other than restaurant service along with marginal supply of goods could also avail the benefit of this scheme.</p> <p>With effect from 01.01.2020, the provisions of this scheme have been incorporated in sub-section (2A) of section 10 vide the Finance (No.2) Act, 2019.</p> <p>It is important to note that Notification No. 2/2019 CT (R) dated 07.03.2019 has not yet been rescinded and is still operational.</p>

Circulars/Clarifications

Circular no	Date of issue	Subject
77/51/2018 (Validity of Composition Levy)	31.12.2018	<p>Withdrawal from the composition scheme by a taxpayer</p> <ol style="list-style-type: none"> who ceases to satisfy any of the prescribed conditions under section 10. who intends to withdraw from the said scheme under section 10. <p>The effective date from which withdrawal from the composition scheme shall take effect shall be the date indicated by him in his intimation/Application, but such date may not be prior to the commencement of the financial year in which such intimation is being filed.</p>

Introduction

- Objective of composition scheme is to **bring simplicity** and reduction in compliance cost for the small taxpayers.
- The scheme is for those **Small taxpayers who cannot afford regular accounting and compliances** as they have limited resources to maintain the details of each and everything.
- Under Composition scheme , **Supplier need not to issue tax invoice , nor required to keep proper accounts** if he fulfills certain criteria's of the scheme.
- **GST rates are special** under this scheme instead of normal notified rates.
- **Return of GST are also simpler** under this scheme.
- **This is optional scheme** based on conditions.

Sec 10	Legal Provisions
(1)	<p>Notwithstanding anything to the contrary contained in this Act but subject to the provisions of sub-sections (3) and (4) of section 9,</p> <ul style="list-style-type: none"> ➤ A registered person. ➤ <u>Whose aggregate turnover</u> in the preceding financial year did not exceed ₹ 50 lakhs. ➤ May opt to pay, in lieu of the tax payable by him under sub-section (1) of Section 9, an amount of tax calculated at such rate as may be prescribed but not exceeding below.

Clause	Category	Rates not exceeding	Notified rates (N/N -1/2018 CT)
(a)	Manufacturer	1% of the turnover in State/Union territory	0.5% of the turnover <u>in State</u> /Union territory (CGST)
(b)	Restaurant and catering services	2.5% of the turnover in State/Union territory	2.5% of the turnover <u>in State</u> /Union territory (CGST)
(c)	Other Suppliers	0.5% of the turnover in State/Union territory	0.5% of the turnover of <u>Taxable supplies</u> in State/Union territory (CGST)

Subject to such conditions and restrictions as may be prescribed ,
Provided that the Government may, by notification, increase the said limit of 50 Lakhs to such higher amount, **not exceeding ₹ 1.5 crore**, as may be recommended by the Council.

Notification no. 14/2019 CT Dated 07.03.2019

The **turnover limit** for composition levy has been **increased from ₹50 lakh to ₹1.5 Crore** vide Notification No. 14/2019 CT dated 07.03.2019.

(Below Proviso inserted by amending the act from 1st Feb ,2019)

Provided further, that a person who opts to pay tax under clause (a), (b) or (c), **may supply services (other than restaurant & catering services)** of

- value not **exceeding 10% of turnover** in a state/union territory in preceding financial year.
- or
- **₹5 Lakhs.**

whichever is higher.

Explanation For the purposes of **second proviso**, 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 **shall not be taken into account for determining the value of turnover in a State** or Union territory.

(2)

The registered person **shall be eligible** to opt under sub-section (1), if he is following below conditions.

Category	Qualifications/Conditions
Supply of services	(a) Save as provided in sub-section (1), he is not engaged in the supply of services other than supplies referred to in clause (b) of paragraph 6 of Schedule II.
Goods not leviable to GST	(b) He is not engaged in making any supply of goods which are not leviable to tax under this Act (e.g. Alcohol for human consumption & Petrol etc.)
Inter State supplies of Goods	(c) He is not engaged in making any inter-State <u>outward</u> supplies of goods.
Supply through ECO	(d) He is not engaged in making any supply of goods through an electronic commerce operator who is required to collect tax at source under section 52. And
Manufacturer of notified goods	(e) He is not a manufacturer of such goods as may be notified by the Government on the recommendations of the Council. Notified Goods <ul style="list-style-type: none"> • PAN MASALA • ICE CREAM & OTHER EDIBLE ICE • TOBACCO & MANUFACTURED TABACCO SUBSTITUTES • AERATED WATERS (Newly Added)
He is not CTP/NRTP	he is neither a casual taxable person nor a non- resident taxable person.

Provided that where more than one registered persons are having the same Permanent Account Number, the registered person **shall not be eligible to opt for the scheme under sub-section (1) unless all such registered persons opt to pay tax under that sub-section.**

(2A)

Notwithstanding anything to the contrary contained in this Act, but subject to the provisions of sub-sections (3) and (4) of section 9, a registered person, not eligible to opt to pay tax under sub-section (1) and sub-section (2),

- whose aggregate turnover in the preceding financial year **did not exceed fifty lakh rupees**, may opt to pay, in lieu of the tax payable by him under sub-section (1) of section 9,
- an amount of tax calculated at such rate as may be prescribed, but **not exceeding 3%** of the turnover in State or turnover in Union territory,

if he is following below conditions:

Category	Qualifications/Conditions
Goods not leviable to GST	(a) He is not engaged in making any supply of goods which are not leviable to tax under this Act (e.g. Alcohol for human consumption & Petrol etc.)
Inter State supplies of Goods	(b) He is not engaged in making any inter-State <u>outward</u> supplies of goods or <u>services</u> .
Supply through ECO	(c) He is not engaged in making any supply of goods or services through an electronic commerce operator who is required to collect tax at source under section 52. And
Manufacturer of notified goods	(d) He is not a manufacturer of such goods or such services as may be notified by the Government on the recommendations of the Council. Notified Goods <ul style="list-style-type: none"> • PAN MASALA • ICE CREAM & OTHER EDIBLE ICE • TOBACCO & MANUFACTURED TABACCO SUBSTITUTES • AERATED WATERS (Newly Added)
He is not CTP/NRTP	(e) he is neither a casual taxable person nor a non-resident taxable person.

Provided that where more than one registered person are having the same Permanent Account Number issued under the Income-tax Act, 1961, the registered person shall not be eligible to opt for the scheme under this sub-section unless all such registered persons opt to pay tax under this sub-section.

- (3)** The **option** availed of by a registered person under sub-section (1) **or sub-section (2A)**, as the case may be ,
- **Shall lapse** with effect from the day on which his aggregate turnover during a financial year exceeds the limit specified under sub-section (1) **or sub-section (2A)**, as the case may be.
- (4)** A taxable person to whom the provisions of sub-section (1) apply **or sub-section (2A)**, as the case may be
- **Shall not collect any tax** from the recipient on supplies made by him
 - Nor shall he be entitled to any credit of input tax.
- (5)** If the proper officer has reasons to believe that a taxable person has paid tax under sub-section (1) **or sub-section (2A)**, as the case may be despite not being eligible, such person shall, in addition to any tax that may be payable by him under

	any other provisions of this Act, be liable to a penalty and the provisions of section 73 or section 74 shall, <i>mutatis mutandis</i> , apply for determination of tax and penalty.
Explanation 1	<p>For the purposes of computing aggregate turnover of a person for determining his eligibility to pay tax under this section, the expression “aggregate turnover”</p> <ul style="list-style-type: none"> ➤ shall include the value of supplies made by such person from the 1st day of April of a financial year up-to the date when he becomes liable for registration under this Act, but ➤ shall not include 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.
Explanation 2	<p>For the purposes of determining the tax payable by a person under this section, the expression “turnover in State or turnover in Union territory”</p> <ul style="list-style-type: none"> ➤ Shall not include the value of following supplies, namely: <ul style="list-style-type: none"> (i) supplies from the first day of April of a financial year up-to the date when such person becomes liable for registration under this Act; and (ii) 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.

Composition Rules

Heading	Other conditions & restrictions in Composition Rules
Purchase under RCM	Goods held in stock have not been purchased from unregistered supplier or notified supplier under 9(3) and where purchased, he pays tax under 9 (3) or 9 (4).
Stock held pre-GST	Goods held in stock by composition dealer on appointed day have not been purchased in the course of Inter-State Trade .
Manufacturer	<p>He was not engaged in the manufacture of goods as notified under section 10 (2) (e) during the preceding FY.</p> <p>(PAN MASALA, ICE CREAM, TABACCO & AERATED WATERS).</p>
Display	<p>He shall mention the words “composition taxable person” at the top of</p> <ul style="list-style-type: none"> ➤ “Bill of supply” issued by him ➤ “Every notice” or signboard displayed” at a prominent place at his principal place of business and at every additional place or places of business.

No Collection of tax	He is not eligible to collect tax on supplies.
Document issued	He will issue "Bill of supply" instead of Tax Invoice.

Validity of Composition Levy

Heading	Validity of Composition Scheme
Remain valid till satisfies all conditions	The option exercised by a registered person to pay amount under composition levy shall remain valid so long as he satisfies all the conditions mentioned in the said section and these rules.
Lapses on exceeding turnover limit	The option to pay tax under composition scheme lapses from the day on which aggregate turnover during current FY exceeds the specified limit.
Ceases to satisfy conditions	Such person is required to pay normal tax under Sec 9(1) from the day he ceases to satisfy any of condition and shall issue tax invoice.
Intimation within 7 days	<p>Required to file intimation for withdrawal from the scheme within 7 days of the occurrence of such event.</p> <ol style="list-style-type: none"> who ceases to satisfy any of the prescribed conditions under section 10. who intends to withdraw from the said scheme under section 10. <p>The effective date from which withdrawal from the composition scheme shall take effect shall be the date indicated by him in his intimation/Application, but such date may not be prior to the commencement of the financial year in which such intimation is being filed.</p>
Input credit	<p>Such person shall be allowed to avail input tax credit on</p> <ul style="list-style-type: none"> ➤ Inputs. ➤ Inputs contained in semi-finished goods. ➤ Input contained in finished goods and. ➤ Capital goods. <p>Held by him on the date of withdrawal and furnish a statement within 30 days of withdrawal of the option, containing details of the stock held.</p>

Analysis**Difference between Aggregate Turnover & Turnover in State/UT:**

Aggregate Turnover Sec 2(6)		Turnover in State/Union Territory Sec 2 (112)	
Includes	Excludes	Includes	Excludes
Taxable supply Wholly Exempt Nil rated supply Non-taxable supply Interstate supply	Inward supply under RCM CGST/UTGST/SGST /IGST and cess. Interest or discount on loans	Taxable supply Wholly Exempt Nil rated supply Non-taxable supply Interstate supply	Inward supply under RCM CGST/UTGST /SGST/IGST and cess. Interest or discount on loans
TO BE COMPUED ON ALL INDIA BASIS		TO BE COMPUED IN/FROM THE STATE	

(New) Notified Aggregate Turnover for Eligibility of Composition**With effect from 1st April, 2019.**

Notification No. 14/2019 – Central Tax	
Category	Turnover Limit
<u>Special Category States</u> 9. Arunachal Pradesh Assam 10. Manipur 11. Meghalaya 12. Mizoram 13. Nagaland 14. Sikkim 15. Tripura 16. Uttarakhand Himachal Pradesh	₹75 Lakhs
Other States (Including J&K, Assam & Himachal Pradesh)	₹1.5 crore

Questions for Practice

- Q.1 ABC Industries, a manufacturer in Mumbai is engaged in supply of goods in Mumbai as well as Chennai (assuming he is making Inter -state movement of goods). Whether ABC Industries is allowed to opt for Composition Scheme?
- Q.2 A person in Delhi availing composition scheme during financial year crosses the turnover of ₹ 1.5 crore on 9th December and he applies for normal registration on 12th December. When the option of composition scheme will lapse?
- Q.3 A Dealer has two offices in Delhi and is eligible for composition levy. If he wants to opt composition scheme for one office and opt normal scheme for another office, Is it allowed under Section 10?
- Q.4 Mr. Raj has one office in Delhi and another office in Mumbai and if he makes only Intra - state supply from both location, is he allowed to opt for composition scheme?
- Q.5 A Tax payer “A” is a manufacturer having one unit –A1 in UP and another unit- A2 in MP. Total turnover of two units in last FY was ₹ 95 Lakh (50 ₹ lakh in UP + ₹ 45 lakh in MP). Total turnover in two units in the second quarter of current financial year ₹ 45 lakh (₹ 30 lakh in UP+ ₹15 lakh in MP). Compute the GST payable under Composition levy for Quarter 2.
- Q.6 A Tax payer “B” is a manufacturer having one unit –B1 in Delhi and another unit- B2 in Manipur. Total turnover of two units in last FY was ₹ 95 lakh (50 ₹ lakh in Delhi + ₹ 45 lakh in Manipur). Total turnover in two units in the second quarter of current financial year ₹ 45 lakh (₹ 30 lakh+ ₹15 lakh). Whether B is eligible for Composition scheme?
- Q.7 Determine whether the supplier in the following cases is eligible for composition levy provided their turnover in preceding FY does not exceed ₹ 1.5 Crore.
- (1) Mohan is engaged in providing legal services in Rajasthan and is registered in the same state.
 - (2) Sugam manufactures has registered office in Punjab and Haryana and supplies goods in neighboring states.
 - (3) Ramesh is having restaurant at Noida and registered with Swiggy and providing food delivery in Noida and Delhi from Noida.
 - (4) Manish is engaged in Trading of PAN Masala.
- Q.8 A Registered person with the aggregate turnover in a preceding FY up-to ₹ 1.5 crore is eligible for composition levy in Delhi. Since the aggregate turnover of Mohan enterprises does not exceed ₹ 1.5 crore, it is eligible for composition levy in the current year. However, all registered persons having same PAN have to opt for composition scheme. If one such registered person opts for normal scheme, others become ineligible for composition levy. Thus, Mohan enterprises either have to opt for composition levy for both the verticals or under normal levy for both the verticals.
- Q.9 Sultan & Sons, a partnership firm, in Nagpur, Maharashtra is a wholesaler of a taxable product ‘P’ and product ‘Q’ exempt by way of a notification, in the State of Maharashtra. Its aggregate turnover in the preceding financial year is ₹ 130 lakh. The firm wishes to opt for composition scheme under sub- sections (1) & (2) of section 10 of the CGST Act.

However, its accountant is of the view that a person engaged in making supply of exempt goods is not eligible for the said scheme. Discuss.

Note: Assume that Sultan & Sons is not engaged in manufacture of goods as notified under section 10(2)(e).

Q.10 A person availing composition scheme, under sub-sections (1) & (2) of section 10 of the CGST Act, in Haryana during a financial year crosses the turnover of 1.5 crore in the month of December. Will he be allowed to pay tax under composition scheme for the remainder of the year, i.e. till 31st March? Please advise.

Q.11 Determine whether the suppliers in the following cases are eligible for composition levy, under section 10(1) & 10(2) of the CGST Act, 2017, provided their turnover in preceding year does not exceed ₹ 1.5 crore:

1. Mohan Enterprises is engaged in trading of pan masala in Rajasthan and is registered in the same State.
2. Sugam Manufacturers has registered offices in Punjab and Haryana and supplies goods in neighboring States.

Q.12 Subramanian Enterprises has two registered places of business in Delhi. Its aggregate turnover for the preceding year for both the places of business was ₹ 120 lakh. It wishes to pay tax under composition levy, under section 10(1) & 10(2) of the CGST Act, 2017, for one of the places of business in the current year while under normal levy for other. You are required to advise Subramanian Enterprises whether he can do so?

Q.13 Mr. Ajay has a registered repair center where electronic goods are repaired/serviced. His repair center is located in State of Rajasthan and he is not engaged in making any inter-State supply of services. His aggregate turnover in the preceding financial year (FY) is ₹ 45 lakh. With reference to the provisions of the CGST Act, 2017, examine whether Mr. Ajay can opt for the composition scheme under section 10(1) & 10(2) of the CGST Act, 2017 in the current financial year? Or whether he is eligible to avail benefit of composition scheme under section 10(2A)? Considering the option of payment of tax available to Mr. Ajay, compute the amount of tax payable by him assuming that his aggregate turnover in the current financial year is ₹ 35 lakh.

Will your answer be different if Mr. Ajay procures few items required for providing repair services from neighboring State of Madhya Pradesh?

Q.14 M/s United Electronics, a registered dealer, is supplying all types of electronic appliances in the State of Karnataka. Their aggregate turnover in the preceding financial year by way of supply of appliances was ₹ 120 Lakh. The firm also expects to provide repair and maintenance service of such appliances from the current financial year. With reference to the provisions of the CGST Act, 2017, examine:

1. Whether the firm can opt for the composition scheme, under section 10(1) and 10(2) of the CGST Act, 2017, for the current financial year, as the turnover may include supply of both goods and services?
2. yes, up to what amount, the services can be supplied?

Answers

1. ABC Industries cannot enter the composition scheme as it is effecting Inter-supply of goods.
2. The Composition scheme availed shall lapsed from the day on which his aggregate turnover during the financial year exceeds ₹ 1.5 crore i.e. on 9th December in this case.
3. No, He has to opt composition scheme for both the offices. He is not allowed to opt composition scheme in one location and normal scheme in the other location.
4. Yes, Raj may opt for Composition scheme for both the offices even if they are in different states but if he has to abide by all other conditions and he cannot make any interstate supply of goods.
- 5.

Unit	Location	Turnover in PY	Turnover in CY	Total GST (@1%)
A1	UP	₹ 50 lakh	₹ 30 lakh	₹ 30,000
A2	MP	₹ 45 lakh	₹ 15 lakh	₹ 15,000
Aggregate Turnover		₹ 95 Lakh	₹ 45 lakh	

6. Mr. B is not eligible for Composition scheme as his aggregate turnover includes Turnover of Special category state i.e. Manipur having notified turnover limit is ₹ 75 lakh and B's total turnover in P.Y exceeding 75 lakh.
7. (1) Yes, Mohan can opt for Section 10(2A) as he is providing exclusive services other than restaurant services and shall pay tax@6% as per Section 10(2A).
(2) No, Sugam is supplying goods in the course of Inter -state, hence he is not eligible for the composition scheme.
(3) Yes, Ramesh is eligible for the composition scheme as there is no restriction under GST law to provide Inter-state supply of services for Restaurant and further no restrictions even restaurants are providing services through E-commerce operator.
(4) Yes, Trading of PAN masala is within the ambit of composition scheme and eligible for the scheme. Only manufacturer of notified goods are restricted for the composition levy.
8. Answer given in the question.
9. The view taken by the accountant of Sultan & Sons is not valid in law. A registered person with an aggregate turnover in a preceding financial year up to ₹ 1.5 crore is eligible for composition levy, under section 10(1) & 10(2), in Delhi. Further, such person must not be engaged in making any supply of goods which are not leviable to tax under this Act and must not be engaged in making any inter-State outward supplies of goods, for being eligible to pay tax under said scheme. In the given case, the aggregate turnover of Sultan & Sons does not exceed ₹ 1.5 crore. Further, it is engaged in making only intra-State supply of goods and Product P supplied by it, is taxable and Product Q supplied by it is leviable to tax though exempted by way of notification. Therefore, it is eligible for composition levy under section 10(1) & 10(2) in the current year.
10. No. The option to pay tax under composition scheme lapses from the day on which the aggregate turnover of the person availing composition scheme for goods during the financial year exceeds the specified limit (₹ 1.5 crore). Once he crosses the threshold, he is required to file an intimation for withdrawal from the scheme in prescribed form within 7 days of the occurrence of such event.
Every person who has furnished such an intimation, may electronically furnish at the common portal, a statement in prescribed form 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, within a period of 30 days from the date from which the option is withdrawn.

11. (i). A supplier engaged in the manufacture of goods as notified under section 10(2)(e), during the preceding FY is not eligible for composition scheme under section 10(1) and 10(2). Ice cream and other edible ice, whether or not containing cocoa, Pan masala, Tobacco and manufactured tobacco substitutes and aerated waters are notified under this category.

However, in the given case, since Mohan Enterprises is engaged in trading of pan masala and not manufacture and his turnover does not exceed ₹ 1.5 crore, he is eligible for composition scheme subject to fulfilment of specified conditions.

- (ii). Since supplier of inter-State outward supplies of goods is not eligible for composition levy, Sugar Manufacturers is not eligible for composition levy.

12. A registered person with an aggregate turnover in a preceding financial year up to ₹ 1.5 crore is eligible for composition levy, under section 10(1) & 10(2), in Delhi. Since the aggregate turnover of Subramanian Enterprises does not exceed ₹ 1.5 crore, it is eligible for composition levy in the current year.

However, all registered persons having the same Permanent Account Number (PAN) have to opt for composition scheme. If one such registered person opts for normal scheme, others become ineligible for composition scheme.

Thus, Subramanian Enterprises either have to opt for composition levy for both the places of business or under normal levy for both the places of business.

13. Section 10(1) provides that a registered person, whose aggregate turnover in the preceding financial year did not exceed ₹ 1.5 crore (₹ 75 lakh in Special Category States except Assam, Himachal Pradesh and Jammu and Kashmir), may opt to pay, in lieu of the tax payable by him, an amount calculated at the specified rates.

However, as per proviso to section 10(1), person who opts to pay tax under composition scheme may supply services other than restaurant services, of value not exceeding 10% of the turnover in a State or Union territory in the preceding financial year or ₹ 5 lakh, whichever is higher.

In the given case, since Mr. Ajay is an exclusive supplier of services other than restaurant services [viz. repair services], he is not eligible for composition scheme under section 10(1) & 10(2). However, section 10(2A) provides an option to a registered person (subject to certain conditions) whose aggregate turnover in the preceding financial year is upto ₹ 50 lakh and who is not eligible to pay tax under composition scheme under section 10(1) & 10(2), to pay tax @ 3% [Effective rate 6% (CGST+ SGST/UTGST)] of the turnover of supplies of goods and services in the State or Union territory.

Thus, in view of the above-mentioned provisions, Mr. Ajay is eligible to avail the composition scheme under section 10(2A) as his aggregate turnover in the preceding FY does not exceed ₹ 50 lakh and he is not eligible to opt for the composition scheme under section 10(1) & 10(2).

Thus, the amount of tax payable by him as per the composition scheme under section 10(2A) is ₹ 2,10,000 [6% of ₹ 35 lakh]. A registered person cannot opt for composition scheme under section 10(2A), if, inter alia, he is engaged in making any inter-State outward supplies. However, there is no restriction on inter-State procurement of goods. Hence, answer will remain the same even if Mr. Ajay procures few items from neighboring State of Madhya Pradesh.

14. (i) The registered persons, whose aggregate turnover in the preceding financial year did not exceed ₹ 1.5 crore, may opt to pay tax under composition levy, under section 10(1) and 10(2). The scheme can be availed by an intra-State supplier of goods and supplier of restaurant service.

However, the composition scheme permits supply of marginal services (other than restaurant services) for a specified value along with the supply of goods and restaurant service, as the case may be.

Thus, M/s United Electronics can opt for composition scheme for the current financial year as its aggregate turnover is less than ₹ 1.5 crore in the preceding financial year and it is not engaged in inter- State outward supplies.

(ii) The registered person opting for composition scheme, under section 10(1) and 10(2), can also supply services (other than restaurant services) for a value up to 10% of the turnover in the preceding year or ₹ 5 lakh, whichever is higher, in the current financial year. Thus, M/s United Electronics can supply repair and maintenance services up to a value of ₹ 12 lakh [10% of ₹ 120 lakh or ₹ 5 lakh, whichever is higher] in the current financial year.