

# GST Composition Scheme



COMPOSITION SCHEME  
UNDER GST

## ***WHAT IS COMPOSITION SCHEME?***

*The composition scheme under GST is an alternative method of levy of tax designed for small taxpayers. The objective of composition scheme is to bring simplicity and to reduce the compliance cost for the small taxpayers. Moreover, it is optional and the eligible person opting to pay tax under this scheme can pay tax at a prescribed percentage of his turnover every quarter, instead of paying tax at normal rate.*

### ***Important points:***

- *It is mandatory for composition dealers to display the words “Composition taxable person” on every notice or signboard displayed at his principal place of business and every additional place of business.*
- *Composition scheme cannot be opted if there is an existing registration under normal scheme using the same PAN.*

## ***WHO CAN OPT FOR THIS SCHEME?***



*The following taxpayers with the prescribed turnover limits as specified below are eligible for registering GST under the composition scheme:*

## **COMPOSITION SCHEME- APPLICABLE GST RATES**

<b>TYPE OF BUSINESS</b>	<b>CGS T</b>	<b>SGST</b>	<b>TOTAL</b>
<i>Manufacturers and traders (goods)</i> <b>Note: Turnover not exceeding Rs. 1.5 crore</b>	0.5%	0.5%	1%
<i>Restaurants not serving alcohol</i> <b>Note: Turnover not exceeding Rs. 1.5 crore</b>	2.5%	2.5%	5%
<i>Other service providers.</i> <b>Note: Turnover not exceeding Rs.50 lakhs (Rs.75 laksh for specific states - Assam, Manipur, etc..)</b>	3%	3%	6%

## **FOLLOWING PERSONS ARE NOT ALLOWED TO OPT FOR THE COMPOSITION SCHEME:**

- ❖ *Any supply of goods which are not liable to be taxed under this Act*
- ❖ *Inter-state outward supplies of goods*
- ❖ *Supplies through electronic commerce operators who are required to collect tax under section 52.*
- ❖ *A manufacturer of notified goods*
- ❖ *A casual dealer*
- ❖ *A non-resident foreign taxpayer*
- ❖ *A person registered as Input Service Distributor (ISD)*
- ❖ *A person registered as TDS Deductor/Tax Collector*

## **CONDITIONS FOR AVAILING COMPOSITION SCHEME**



*No input Tax Credit can be claimed by a dealer opting for composition scheme*



*The dealer cannot supply goods not taxable under GST such as alcohol*



*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 under the same PAN, they must register all such businesses under the scheme collectively*

### **APPLICATION FOR COMPOSITION SCHEME:**

- ❖ *To opt for composition scheme a taxpayer has to file GST CMP-02 with the government. This can be done online by logging into the GST Portal. This intimation should be given at the beginning of every Financial Year by a dealer wanting to opt for Composition Scheme.*
- ***New Taxpayers:** Any person who becomes liable to register under GST Act, after the appointed day, needs to*

*file his option to pay composition amount in the Application for New Registration in Form GST REG-01.*

➤ ***Existing Taxpayers:*** *Any taxpayer who is registered as normal tax payer under GST needs to file an application to opt for Composition Levy in Form GST-CMP-02 at GST Portal prior to the commencement of financial year for which the option to pay tax under the aforesaid section is exercised.*

## ***GST RETURNS AND FORMS UNDER COMPOSITION SCHEME:***



*A composition taxpayer is required to pay tax in a quarterly statement CMP-08 by 18th of the month after the end of the quarter. GSTR-9A is an annual return to be filed by 31st December of the next financial year. It was waived off for FY 2017-18 and FY 2019-20. Also, a return in form GSTR-4 has to be filed annually by 30th April of next financial year from FY 2019-20 onwards.*



<i><b>FORMS</b></i>	<i><b>DESCRIPTION</b></i>
<i><b>GST CMP-01</b></i>	<i>The implication for payment of tax under composition scheme(for registered business/individual)</i>
<i><b>GST CMP-02</b></i>	<i>Intimation to pay tax under sec.10(composition levy)</i>
<i><b>GST CMP-04</b></i>	<i>Application for withdrawal from composition scheme</i>
<i><b>GST CMP-08</b></i>	<i>Statement of payment of self-assessed tax</i>

### ***Advantages of composition scheme:***

- *Easy compliance as no elaborate accounts and records to be maintained.*
- *Simple Quarterly Return*



- *Quarterly payment of tax*
- *Limited tax liability.*
- *High liquidity as taxes are at a lower rate.*

### ***Disadvantages of composition scheme:***

- *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 non-taxable goods under GST such as alcohol and goods through an e-commerce portal.*
- *Collection of tax from consumers is not allowed.*
- *Supply of services not covered.*