

# Composition Levy under Goods & Services Tax (GST)

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caabhishek

## Introduction

Composition Scheme is a feature of **Indirect Tax laws** wherein assessee pay tax on value addition by maintaining detail of 'inputs' and 'outputs'. As per the scheme, the assessee is made free from the requirement of maintaining complete details of its inputs and outputs and permits the assessee to make payment of a single put-together amount better known as 'composition fees'.

The Indian GST Law provides for the option of availing the benefit of the Composition Levy to small business houses. The provision related to Composition levy is contained under Section 10 of the CGST Bill, 2017. The said Section provides for option of availing Composition scheme to a 'Registered person' whose 'aggregate turnover' during the preceding FY did not exceed fifty lakh rupees.

## Rates under Composition Scheme

The exact rates of Composition Levy are yet to be prescribed, however the maximum rates are classified under the following three categories:

- Manufacturer: Maximum one per cent of the turnover in State or turnover in Union
- Specific Service providers: Only such service providers who are supplier of food related services (restaurant services) specified under paragraph 6(b) of Schedule II (supply, by way of or as part of any service or in any other manner whatsoever of goods, being food or any other article for human consumption of any drink (other than alcoholic liquor for human consumption) which are kept under composition levy at a maximum two and a half per
- Other suppliers: Half per cent of the turnover in State or turnover in Union

Point to be noted is that the above rates are provided in **CGST Bill, 2017**. Therefore, the actual pay out of composition rate will be double of the above rates i.e. either 1%, 2% or 5% bifurcated into CGST and SGST/UTGST.

## Covered Persons

The Composition scheme can be availed by the following categories of registered persons:

- The registered person is not engaged in the supply of service other than supplies referred to in clause (b) of paragraph 6 of Schedule II.
- The registered person is not engaged in making any supply of goods which are not leviable to tax under GST Laws.
- The registered person is not engaged in making any inter- State outward supplies of goods. The bar is only on outward supplies while it is permitted for the registered person to procure inter-state supplies under Composition Levy.
- The registered person should not be engaged in making any supply of goods through an electronic commerce operator.
- The taxable person should not be a manufacturer of such goods as may be notified by the Government on the recommendations of the Council.

## Conditions and Restrictions

- The person should neither be a casual taxable person nor a non-resident taxable person.
- The goods held in stock on the appointed day had 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 the option is exercised under sub-rule (1) of rule 1 of Composition Rules.
- The goods held in stock by him have not been purchased from an unregistered person and where purchased, he pays the tax under reverse charge basis in compliance of sub-section (4) of section 9;
- The person shall pay tax under sub-section (3) or sub-section (4) of section 9 on inward supply of goods or services or both received from un-registered persons;
- The person shall mention the words “composition taxable person, not eligible to collect tax on supplies” at the top of the bill of supply issued by him.
- The person shall mention the words “composition taxable person” on every notice or sign board displayed at a prominent place at his principal place of business and at every additional place or places of business.
- The taxable person who has paid tax under composition scheme even when not being eligible will be liable to a penalty and the provisions of Section 73 or Section 74 shall, mutatis mutandis, apply for determination of tax and penalty.
- The option exercised by the registered person to pay tax under the Composition scheme shall remain valid so long as he satisfies all the conditions.
- Registered person can withdraw from composition scheme at his option by filing an application.

### **Payments and Returns**

The Registered person paying tax under composition scheme is required to pay tax on quarterly basis.

The Registered person is also required to file a quarterly return in Form GSTR-4 by the 18th of the month following the end of the quarter instead of any statement of outward or inward supplies.

### **Points to be noted**

- Composition scheme will be available only when all the registered entities under a single Permanent Account Number opts for such scheme.
- The person registered under Composition scheme is neither permitted to collect any tax from the recipient of supplies made by him nor can he avail any credit of input tax paid.
- The option availed by a registered person shall lapse with effect from the day on which his aggregate turnover during a financial year exceeds fifty lakh rupees.

### **Transition to GST**

- Registered persons have to file option within 30 day from the transition date to avail the option of paying tax as per composition scheme;
- Goods in stock on transition date must not 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.