

Composition Levy under GST

Composition Levy (SECTION 10)

In terms of section 10(1), a registered person whose aggregate turnover in the preceding financial year did not exceed Rs.50 lakhs, may opt to pay amount (note that it is not a tax which a person is required to pay), in lieu of tax payable in normal scenario but it shall not exceed following % of turnover in state or in union territory:

1. 1% of turnover in case of manufacturer
2. 2.5% of turnover in case of restaurant services (excluding alcohol)
3. 0.5% in case of others.

As in above para, it is mentioned that registered person whose aggregate turnover in the preceding financial year did not exceed Rs.50 lakhs, **may** opt to pay amount in lieu of tax. From the word **may**, it is clear that this scheme is optional not mandatory.

Note that Businesses dealing only in goods can only opt for composition scheme. Services providers have been kept outside the scope of this scheme. However, restaurant sector taxpayers may also opt for the scheme.

If a registered taxable person having the same PAN has obtained registration for a head office and branch in same or different states then, he shall not apply for composition scheme in isolation. It means he has to apply for composition scheme for all head offices and branches.

In terms of **Section 10(3)**, the permission granted for Composition levy scheme shall stand withdrawn from the day when the aggregate turnover of the registered taxable person during a financial year exceeds Rs. 50 lakhs or specified limit. It means during when aggregate turnover of person who opts for composition levy scheme exceeds Rs. 50 lakhs, then from that day, composition scheme shall stand withdrawn.

Section 10 (4) states that if any person opts composition levy scheme then:

- He shall not collect any tax from recipient on supplies made by him
- And he shall not be entitled to any credit of input tax.

Section 10 (5) states that if proper officer has *reasons to believe* that a taxable person was not eligible to pay tax under Composition scheme then person shall liable to pay any tax which may be payable by him under this act and penalty provisions shall also attracted. It means that if the tax administration has reason to believe that a composition dealer has wrongly availed the benefit under the composition scheme, then such a person shall be liable to pay all the taxes which he would have paid under the normal scheme. Also, he will be liable to pay a penalty equivalent to an amount of tax payable. This penalty will not be levied without giving a show cause notice to the dealer.

The above mentioned Composition scheme shall not be granted to a taxable person:

- Who is engaged in supply of taxable services except restaurant services
- Who supplies any goods which are not leviable to tax under CGST act
- Who makes any inter state outward supply of goods. It means businesses having only intra state supply of goods are eligible.
- Who makes any supply of goods through an electronic commerce operator and that operator is required to collect tax at source.(for e.g. if M/S XYZ is making sales through Snapdeal, then M/S XYZ is not eligible for this scheme)
- Who is a manufacturer of such goods as may be notified on the recommendation of the Council.

Important points to be noted are:

- That A person eligible for composition scheme is not liable to maintain detail records as in the case of a normal taxpayer.
- Composition dealer is not allowed to avail input tax credit.
- As a composition dealer is not allowed to avail input tax credit, he shall not issue a tax invoice as well. It means a buyer who purchases goods from composition dealer, can not avail input tax credit on such goods as well.
- Person paying amount under composition scheme is not liable to collect composition tax from buyer.
- Taxpayers registered under composition scheme under the current regime will be allowed to take credit of input held in stock, or in semi-finished goods

or in finished goods on the day immediately preceding the date from which they opt to be taxed as a regular tax payer.

- When switching from normal scheme to composition scheme, the taxpayer shall be liable to pay an amount equal to the credit of input tax in respect of inputs held in stock on the day immediately preceding the date of such switchover. The balance of input tax credit after payment of such amount, if any lying in the credit ledger shall lapse.

Under the normal scenario, a taxpayer under GST has to file minimum 3 returns monthly and one annual return. It means he is compelled to file 37 returns in a year or penalty will be levied for non-compliance. For small suppliers and manufacturers, it is quite difficult to maintain so detailed books of accounts on a daily basis and record every transaction with supporting documents.

Whereas, in composition scheme, only a quarterly return will be uploaded under GSTR-4 by:

18th July - 1st quarter

18th October - 2nd quarter

18th January - 3rd quarter

18th April - 4th quarter

This will ease the compliance burden for SMEs, and they can focus more on their business rather than getting occupied in compliance procedures.

Now the next topic is INPUT TAX CREDIT (SECTION 16-22) :

Input credit means at the time of paying tax on output, you can reduce the tax you have already paid on inputs. For e.g. tax paid on inputs i.e. on purchases = Rs. 300
And tax payable on output=Rs. 650

It means person can claim input tax of Rs. 300 and he is need to pay only Rs. 350 i.e.
 $650-300=350$

How to claim input credit under GST?

To claim input credit under [GST](#) -

- Person must have a **tax invoice(of purchase) or debit note** issued by registered dealer
- Person should have **received the goods/services**

Note: Where recipient does not pay the value of service or tax thereon within 3 months of issue of invoice and he has already availed input credit based on the invoice, the said credit will be added to his output tax liability along with interest.

It is important to learn that it might be possible that there has been unclaimed input credit, this situation will arise when tax paid on inputs are higher than tax paid on output, then such person can carry forward the balance or can claim a refund.

For e.g. If tax paid on inputs = Rs. 650 and tax paid on output = Rs. 450, then Rs. 450 shall be avail as input tax credit and balance Rs. 200 can be carry forward or can be claim as refund.

So, we can conclude about [INPUT TAX CREDIT](#) that if tax paid on inputs are lower than tax payable on output, pay the balance. If tax paid on inputs are higher than tax paid on outputs then carry forward the balance or claim the refund.

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