

Composition Scheme under GST

Every tax system requires compliance with statutory provisions in a timely manner. It may be periodic tax payments, filing of returns, maintenance of prescribed records, etc., which, many a time, pose a challenge to small businesses. Provisions to protect the interest of such small businesses are often found in the taxing statutes. The GST in India, too, has such provisions.

Presently, several State Governments have provisions for payment of a Composition levy of VAT for specified small businesses which makes compliance of tax laws easier without having to maintain copious records, registers and returns. A similar provision, however, does not exist under the Service Tax Law.

Section 8 of the Model GST Law contains provisions for Composition Scheme permitting the tax payer to opt for payment of GST as a fixed percent on turnover instead of paying tax under regular provisions of the law.

Highlights of the Scheme:

Applicability		
1	Applicable to a registered Taxable Person	Eligible even if registered voluntarily
2	Having Aggregate Turnover < Rs.50 lakhs	Aggregate Turnover includes value of Taxable and Non-Taxable Supplies, Exempted and Export Supplies too. Does not include Taxes levied under GST and Value of Inward Supplies
3	Needs to make an application	Even where the person is under Composition under the current VAT law, it is advisable to make the application under GST
4	Will need to pay taxes at usual rates on RCM, if applicable	Reverse Charge Mechanism u/s 7(3) would apply even for such persons
Restrictions/Limitations		
1	Cannot effect Inter State Supplies	However, Inter State purchases are permitted
2	Aggregate Turnover to be computed across all Business Verticals and across the country for each PAN number	Aggregate Turnover determined on pan India basis, for the respective Income Tax PAN no.
3	The person is not permitted to collect GST	GST has to be borne by the person out of the Sale proceeds
4	Person shall not be entitled to Input Credits under GST	Unlike persons under regular scheme, set-offs are not permitted
5	Law provides for additional conditions to be prescribed	
Ease of doing business		
1	Quarterly Returns	As against 3 to 4 returns monthly
2	Lower rate of Tax	Specified at not less than 1%. Expected to be in the region of 1% to 3%
3	In place of a Tax Invoice the document required is a Bill of Supply	Convenient since details required are not as much
4	Presently, several State VAT laws permit composition, but not available for services	Big boon to Service Providers since the Input Tax payment is negligible
Penal Provisions		
1	In case it is found that the scheme was ineligible, the differential Tax along with Penalty equivalent to the Tax	Adequate care needs to be taken



Composition Scheme is an option and eligible Tax payer needs to inform the Government of his option for the Scheme. Without such an information, regular tax would be applicable by default. Such option needs to be chosen for all the businesses of the Taxable Person – both supply of Goods and Services.

In case of changeover from regular scheme to composition scheme (aggregate turnover falls below the prescribed limit during the year), the Input Credit relevant to the opening balance in stock would be lapsed and liable to be cleared off in the books. Similarly, in case of a changeover from composition scheme to the regular scheme (aggregate turnover goes beyond the prescribed limit during the year), the Input Credit relevant to the opening balance in stock would become available and the person can avail them on selling such goods. Further, Tax payable under Section 7(3), (Reverse Charge), would be applicable for such persons too.

A person opting for paying GST under Composition Scheme would enjoy the privileges of filing just one return each quarter. Further, the requirements for retaining records are much less and stringent. The scheme is ideally suited to small businesses wherein adequate support system does not exist in respect of book-keeping, compilation of details required for Input Tax Credits, etc. It is highly recommended for small service providers wherein the incidence of GST on Inputs is negligible.



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