

Composition Levy

Q 17. What is the composition levy under GST?

Ans. The composition levy is an alternative method of levy of tax designed for small taxpayers whose turnover is up to prescribed limit. The objective of composition scheme is to bring simplicity, ease compliance burden and reduce cost of compliance for the small taxpayers. The scheme is optional. It essentially provides for a turnover tax regime for such tax payers, with facility for filing of return on quarterly basis (instead of monthly return by the normal tax payers).

An eligible person opting to pay tax under the composition scheme shall, instead of paying tax on every invoice at the specified rate, pay tax at a prescribed percentage of his turnover every quarter.

Q 18. What is the rate of composition levy?

Category of		
S/No.	Registered person	Rate of Tax
	Manufacturers, other than manufacturers of such goods as may be notified by the Government	1% (0.5% CGST plus 0.5% SGST) of the turnover in the State/UT

Restaurant Services viz 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 or any drink (other than alcoholic liquor for human consumption), where such supply or service is for cash, deferred payment or other valuable consideration.	5% (2.5% CGST plus 2.5% SGST) of the turnover in the State/UT
Any other supplier eligible for composition levy under the composition scheme and the composition rules	1% (0.5% CGST plus 0.5% SGST) of the turnover of taxable supplies of goods in the State/UT

Thus, in respect of traders, value of exempt supplies shall not be counted for calculating the turnover. The tax shall be levied @1% of the turnover of the taxable supplies of goods

Q 19. What is the eligibility category for opting for composition levy? Which are the Special Category States in which the turnover limit for Composition Levy for CGST and SGST purpose shall be Rs. 75 lakh?

Ans. Composition scheme is a scheme for payment of GST available to small taxpayers whose turnover in the preceding financial year did not cross Rs. One crore. In the case of

following 9 states, the limit of turnover is Rs. 75 Lakhs in the preceding financial year.

- a) Arunachal Pradesh
- b) Assam
- c) Manipur
- d) Meghalaya
- e) Mizoram
- f) Nagaland
- g) Sikkim
- h) Tripura and
- i) Himachal Pradesh.

Q 20. Who are the persons not eligible for composition scheme?

Ans. Following persons will not be allowed to opt for composition scheme:

- a) supplier of services, other than restaurant service (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 or any drink (other than alcoholic liquor for human consumption), where such supply or service is for cash, deferred payment or other valuable consideration). It was, however, laid down vide Removal of Difficulties Order No. 01/2017- Central Tax dated 13.10.2017 that a person would not become eligible for composition scheme if he supplies any exempt services including services by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount.

As per the recent CGST (Amendment) Act, 2018, a person who opts to pay tax under composition scheme may supply services (other than those referred to in clause (b) of paragraph 6 of Schedule II), of value not exceeding ten per cent of turnover in a State or Union territory in the preceding financial year or five lakh rupees, whichever is higher. However, the notification for date of implementation of the amendment Act is yet to be issued.

- b) a person engaged in making any supply of goods which are not leviable to tax under the CGST Act;
- c) a person engaged in making any inter-State outward supplies of goods;
- d) a supplier making any supply of goods through an electronic commerce operator who is required to collect tax at source under section 52; and
- e) a manufacturer of such goods as may be notified by the Government on the recommendations of the Council. The manufacturers of the following goods shall not be eligible for the Composition Levy:

Classification

(Tariff

S.No.	item/Chapter)	Description
		Ice cream and other edible ice, whether or not containing
1 2105 00 00		cocoa
22106 90 20		Pan masala
		All goods i.e. Tobacco and manufactured tobacco
3	24	substitutes

Q 21. Whether service providers can apply for composition scheme?

Ans. No, the Service Providers, except provider of restaurant services, cannot apply for the scheme. At present, there is no composition scheme for service providers , except for provider of restaurant services.

However, a new proviso has been added as per the recent CGST (Amendment) Act, 2018 in order to allow them to be eligible for the scheme even if they supply services of value not exceeding 10% of the turnover in the preceding financial year in a State/Union territory or Rs. 5 lakhs, whichever is higher.

Thus, a person who opts to pay tax under composition scheme will be allowed from a date to be notified to supply services (other than those referred to in clause (b) of paragraph 6 of Schedule II), of value not exceeding ten per cent of turnover in a State or Union territory in the preceding financial year or five lakh rupees, whichever is higher.

It is reiterated that the notification for date of implementation of the amendment Act is yet to be issued.

Q 22. When will a person opting for composition levy pay tax?

Ans. A person opting for composition levy will have to pay on quarterly basis before 18th of the month succeeding the quarter relating to supplies.

Q 23. A person availing composition scheme during a financial year crosses the turnover of Rs. 100 Lakhs/75 Lakhs during the course of the year i.e. say he crosses the turnover of Rs. 100 Lakhs/75 Lakhs in December? Will he be allowed to pay tax under composition scheme for the remainder of the year i.e. till 31st March?

Ans. No. The option availed shall lapse from the day on which his aggregate turnover during the financial year exceeds Rs. 100 Lakhs/75 Lakhs. Once he crosses the threshold, he shall file an intimation for withdrawal from the scheme in FORM GST CMP-04 within seven 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 FORM GST ITC-01 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 thirty days from the date from which the option is withdrawn.

Q 24. How will aggregate turnover be computed for the purpose of composition scheme?

Ans. It will be computed on the basis of turnover on all India basis. “aggregate turnover” means the aggregate value of all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis), exempt supplies, exports of goods or services or both and inter-State supplies of persons having the same Permanent Account Number, to be computed on all India basis but excludes central tax, State tax, Union territory tax, integrated tax and cess.

However, a person supplying any exempt services including services by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount, not be ineligible for the composition scheme. In computing his aggregate turnover in order to determine his eligibility for composition scheme, value of supply of the exempt services including services by way of extending deposits, loans or advances shall not be taken into account.

Q 25. Can a person who has opted to pay tax under the composition scheme avail Input Tax Credit on his inward supplies?

Ans. No. A taxable person opting to pay tax under the composition scheme is out of the credit chain. He cannot take credit on his input supplies.

Q 26. Can a registered person, who purchases goods from a taxable person paying tax under the composition scheme, take credit on purchases made from the composition dealer?

Ans. No.

Q 27. Can a person paying tax under the composition scheme issue a tax invoice under GST?

Ans. No.

Q 28. Is monthly return required to be filed by the person opting to pay tax under the composition scheme?

Ans. No. Such persons need to file quarterly returns in Form GSTR-4. The GSTR-4 needs to be filed electronically on the common portal by the 18th day of the month succeeding the quarter relating to the supplies.

Q 29. What are the basic information that need to be furnished in GSTR 4?

Ans. It should contain details of turnover in the State or Union territory, inward supplies of goods or services or both and tax payable. The basic information that need to be furnished in FORM GSTR-4 includes aggregate turnover, details of inward supplies including supplies on which tax is to be paid on reverse charge, tax on outward supplies made, Statement of Advances etc.

Serial 4A of Table 4 requires the composition dealer to furnish details of inward supplies received from a registered supplier (other than supplies attracting reverse charge). It has been prescribed, vide notification No. 30/2018- Central tax dated 30.10.2018, that the information in this Table is not required to be furnished.

Q 30. How to fill the GSTR-4 form?

Ans. GSTR 4 offline utility, for preparation and filing of Return by composition dealer is also available in download section of the GST Portal.

Facility to provide details of amendment, in Form GSTR 4, is also available to composition taxpayers. They can now file amendment details in various tables of Form GSTR 4, like in Table 5A (of supply), 5C (of debit/ credit notes), 7 (of tax on outward supply made) & 8 (II) (of advance of reverse charge or advances for which invoice is received in current period).

Q 31. How should a person who opts in or opts out of composition scheme file returns?

Ans. Composition tax payers have to file quarterly return and Normal tax payers have to file monthly returns in GST Regime. For the taxpayers who have opted in to composition scheme and taxpayers who have opted out from the composition scheme as normal tax payer, provision to file both monthly/quarterly returns (in the interim period), has been enabled on the GST Portal.

Q 32. A person opting to pay tax under the composition scheme receives inputs/input services from an unregistered person. Will the composition dealer have to pay GST under reverse charge? If yes, in what manner?

Ans. No. The requirement to pay GST on reverse charge basis under section 9(4) of the CGST Act has been removed wef 13.10.2017 till 30.09.2019.

Q 33. What is the form in which an intimation for payment of tax under composition scheme needs to be made by the taxable person?

Ans. The intimation is to be made electronically in form GST CMP 01.

Q 34. A person registered under existing law (Central Excise/Service Tax/VAT) and who has been granted registration on a provisional basis wants to opt for composition scheme. How and when can he do that?

Ans. Such a person has to electronically file an intimation in FORM GST CMP-01, duly signed or verified through electronic verification code, on the common portal, either directly or through a Facilitation Centre notified by the Commissioner, prior to the appointed day, but not later than thirty days after the said day, or such further period as may be extended by the Commissioner in this behalf.

Q 35. What if such persons granted provisional registration, gives an intimation to opt for composition levy after the appointed date?

Ans. In cases where the intimation in FORM GST CMP-01 is filed after the appointed day, the registered person shall not collect any tax from the appointed day but shall issue bill of supply for supplies made after the said day.

Q 36. What are the other compliances which a provisionally registered person opting to pay tax under the composition levy need to make?

Ans. Such persons have to furnish the details of stock, including the inward supply of goods received from unregistered persons, held by him on the day preceding the date from which he opts to pay tax under the said section, electronically, in FORM GST CMP-03, on the common portal, either directly or through a Facilitation Centre notified by the Commissioner, within a period of ninety days from the date on which the option for composition levy is exercised or within such further period as may be extended by the Commissioner in this behalf.

Q 37. Can a person making application for fresh registration under GST opt for composition levy at the time of making application for registration?

Ans. Yes. Such persons may give an option to pay tax under section 10 in Part B of FORM GST REG-01, which shall be considered as an intimation to pay tax under the said section.

Q 38. Can the option to pay tax under composition levy be exercised at any time of the year?

Ans. No. The option has to be given electronically in FORM GST CMP-02, prior to the commencement of the financial year for which the option to pay tax under the aforesaid

section is exercised.

Q 39. Can a person who has already obtained registration, opt for payment under composition levy? If so, how?

Ans. Yes. Such persons need to give intimation electronically in Form GST CMP-02. But the same must be done prior to commencement of financial year.

Q 40. What are the compliances from ITC reversal point of view that need to be made by a person opting for composition levy?

Ans. The registered person has to pay an amount equal to the input tax credit in respect of stocks held on the day immediately preceding the date of exercise of option. The ITC on inputs shall be calculated proportionately on the basis of corresponding invoices on which credit had been availed by the registered taxable person on such inputs. In respect of capital goods held in stock the input tax credit involved in the remaining useful life in months shall be computed on pro-rata basis, taking the useful life as 5 years. Assume capital goods have been in use for 4 years, 6 months and 15 days. The useful remaining life in months will be 5 months ignoring the part of the month. If ITC on such capital goods is taken as Credit, ITC attributable to the remaining useful life will be C multiplied by 5/60. This would be the amount payable on capital goods, the payable amount would be calculated by reducing by a prescribed percentage point. The ITC amount shall be determined separately for integrated tax, central tax and state tax / Union territory tax. The payment can be made by debiting electronic credit ledger, if there is sufficient balance in the electronic credit ledger, or by debiting electronic cash ledger. If any balance remains in the electronic credit ledger, it would lapse.

Such persons also has to furnish the statement in FORM GST ITC-03 which is a declaration for intimation of ITC reversal/payment of tax on inputs held in stock, inputs contained in semi-finished and finished goods held in stock and capital goods under Section 18(4) of GST Act, within a period of sixty days from the commencement of the relevant financial year.

Q 41. In case a person has registration in multiple states? Can he opt for payment of tax under composition levy only in one state and not in other state?

Ans. No. Any intimation under sub-rule (1) or sub-rule (3) of Rule 3 of the CGST Rules, 2017 in respect of any place of business in any State or Union territory shall be deemed to be an intimation in respect of all other places of business registered on the same Permanent Account Number.

Q 42. What is the effective date of composition levy?

Ans. There can be three situations:

Situation	Effective date of composition levy
Persons who have been granted provisional registration and who opt for composition levy (Intimation is filed under Rule 3(1))	The appointed date i.e 1st July, 2017
Persons opting for composition levy at the time of making application for new registration in the same registration application itself (The intimation under Rule 3(2))	Effective date of registration; Intimation shall be considered only after the grant of registration and his option to pay tax under section 10 shall be effective from the effective date of registration.
Persons opting for composition after obtaining registration (The intimation is filed under Rule 3(3))	The beginning of the financial year

Q 43. What are the conditions and restrictions subject to which a person is allowed to avail of composition levy?

Ans. The person exercising the option to pay tax under section 10 shall comply with the following conditions, namely:-

- (a) he is neither a casual taxable person nor a non-resident taxable person;
- (b) the goods held in stock by him on the appointed day have 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 3;

- (c) the goods held in stock by him have not been purchased from an unregistered supplier and where purchased, he pays the tax under sub-section (4) of section 9 (such a requirement has been removed wef 13.10.2017 as mentioned in answer to Question No. 16 above);
- (d) he shall pay tax under sub-section (3) or sub-section (4) of section 9 on inward supply of goods or services or both (such a requirement has been removed wef 13.10.2017 as mentioned in answer to Question No. 16 above);
- (e) he was not engaged in the manufacture of goods as notified under clause (e) of sub-section (2) of section 10, during the preceding financial year;
- (f) he 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; and
- (g) he shall mention the words “composition taxable person” on every notice or signboard displayed at a prominent place at his principal place of business and at every additional place or places of business.

Q 44. What is the validity of composition levy?

Ans. The option exercised by a registered person to pay tax under section 10 shall remain valid so long as he satisfies all the conditions mentioned in the said section and under the Composition Rules.

Q 45. Can a person paying tax under composition levy, withdraw voluntarily from the scheme? If so, how?

Ans. Yes. The registered person who intends to withdraw from the composition scheme shall, before the date of such withdrawal, file an application in FORM GST CMP-04, duly signed or verified through electronic verification code, electronically on the common portal. Every person who has filed an application for, may electronically furnish at the common portal, either directly or through a Facilitation Centre notified by the Commissioner, a statement in FORM GST ITC-01 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 thirty days from the date from which the option is withdrawn.

Q 46. What action can be taken by the proper officer for contravention of any provisions of composition levy and how?

Ans. Where the proper officer has reasons to believe that the registered person was not eligible to pay tax under section 10 or has contravened the provisions of the Act or provisions of this Chapter, he may issue a notice to such person in FORM GST CMP-05 to show cause within fifteen days of the receipt of such notice as to why the option to pay tax under section 10 shall not be denied.

The registered person shall submit reply in FORM GST CMP-06. Upon receipt of the reply to the show cause notice issued, the proper officer shall issue an order in FORM GST CMP-07 within a period of thirty days of the receipt of such reply, either accepting the reply, or denying the option to pay tax under section 10 from the date of the option or from the date of the event concerning such contravention, as the case may be.

Q 47. In case the option to pay tax under composition levy is denied by the proper officer, can the person avail ITC on stock after denial?

Ans. Yes. Every person in respect of whom an order of withdrawal of option has been passed in FORM GST CMP-07, may electronically furnish at the common portal, a statement in FORM GST ITC-01 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 denied, within a period of thirty days from the date of the order passed in FORM GST CMP-07.

Q 48. Will withdrawal intimation in any one place be applicable to all places of business?

Ans. Any intimation or application for withdrawal in respect of any place of business in any State or Union territory, shall be deemed to be an intimation in respect of all other places of business registered on the same Permanent Account Number.