



# Understanding Composition scheme...A simple learning....

## (PART- II)

### Registration under GST

In any tax system, registration is the most fundamental requirement for the identification of taxpayers for ensuring tax compliance in the economy. Without registration, a person can neither collect tax from his customers nor claim any Input Tax Credit of tax paid by him. The registration in GST is PAN-based and State specific. The taxpayer has to register in each of such State or Union Territory from where he affects supply.

If a person has a unit in (Special Economic Zone) SEZ and also a unit in a domestic tariff Area (i.e. outside the SEZ) in the same State, then he has to take separate registration i.e. one for his SEZ unit and another for the business

vertical of him.

If a supplier also wants to distribute credit on common input services to his same-PAN entities, then he will take separate registration as an "input service distributor" in addition to his registration as a 'supplier'. Unlike the service tax regime, the GST law does not have the facility of centralized registration for units located across multiple States.

Now registration turnover limits have been prescribed by the law. Moreover, there the registration is optional on the part of the supplier if the aggregate turnover is below the prescribed limit by the GST law.

### The Composition Scheme as the Act

Section 10	Composition levy
Sub-section	Particulars
(1)	Notwithstanding anything to the contrary contained in this Act but subject to the provisions of sub-section (3) and (4) of section 9, a registered person, whose aggregate turnover in the preceding financial year did not exceed Rs.1.5 crores, may opt to pay, in lieu of the tax payable by him under sub-section (1) of section 9, an amount of tax calculated at such rate as may be prescribed, but not exceeding,—
(a)	one percent of the turnover in State or turnover in Union Territory in case of a manufacturer
(b)	two and a half percent. of the turnover in State or turnover in Union territory in case of persons engaged in making supplies referred to in clause (b) of paragraph 6 of Schedule II, and
(c)	half percent of the turnover in State or turnover in Unionterritory in case of other suppliers
	Subject to such conditions and restrictions as may be prescribed.
	Provided further that a person who opts to pay tax under clause (a) or clause (b) or clause (c) may supply services (other than those referred to in clause (b) of paragraph 6 of Schedule II), of value not exceeding ten percent. of turnover in a State or Union territory in the preceding financial year or five lakh rupees, whichever is higher.

Section 10	Composition levy
Sub-section	Particulars
	<i>Explanation - For the purposes of second proviso, the value of exempt supply of services provided by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount shall not be taken into account for determining the value of turnover in a State or Union territory.</i>
(2)	<i>The registered person shall be eligible to opt under sub-section (1), if—</i>
	<i>(a) save as provided in sub-section (1), he is not engaged in the supply of services</i>
	<i>(b) he is not engaged in making any supply of goods or services which are not leviable to tax under this Act</i>
	<i>(c) he is not engaged in making any inter-State outward supplies of goods or services</i>
	<i>(d) he is not engaged in making any supply of goods or services through an electronic commerce operator who is required to collect tax at source under section 52; and</i>
	<i>(e) he is not a manufacturer of such goods as may be notified by the Government on the recommendations of the Council</i>
	<i>(f) he is neither a casual taxable person nor a non-resident taxable person.</i>
	<i>Provided that where more than one registered persons are having the same Permanent Account Number (issued under the Income-tax Act, 1961), the registered person shall not be eligible to opt for the scheme under sub-section (1) unless all such registered persons opt to pay tax under that sub-section.</i>
(2A)	<i>Notwithstanding anything to the contrary contained in this Act, but subject to the provisions of sub-sections (3) and (4) of section 9, a registered person, not eligible to opt to pay tax under sub-section (1) and sub-section (2), whose aggregate turnover in the preceding financial year did not exceed 1.5 crore rupees, may opt to pay, in lieu of the tax payable by him under sub-section (1) of section 9, an amount of tax calculated at such rate as may be prescribed, but not exceeding three per cent. of the turnover in State or turnover in Union territory, if he is not—</i>
	<i>(a) engaged in making any supply of goods or services which are not leviable to tax under this Act;</i>
	<i>(b) engaged in making any inter-State outward supplies of goods or services;</i>
	<i>(c) engaged in making any supply of goods or services through an electronic commerce operator who is required to collect tax at source under section 52;</i>
	<i>(d) a manufacturer of such goods or supplier of such services as may be notified by the Government on the recommendations of the Council; and</i>
	<i>(e) a casual taxable person or a non-resident taxable person.</i>
	<i>Provided that where more than one registered person are having the same Permanent Account Number issued under the Income-tax Act, 1961, the registered person shall not be eligible to opt for the scheme under this sub-section unless all such registered persons opt to pay tax under this sub-section.</i>
(3)	<i>The option availed of by a registered person under sub-section (1) or sub-section (2A), as the case may be, shall lapse with effect from the day on which his aggregate turnover during a financial year exceeds the limit specified under sub-section (1) or sub-section (2A), as the case may be.</i>
(4)	<i>A taxable person to whom the provisions of sub-section (1) or, as the case may be, sub-section (2A) apply shall not collect any tax from the recipient on supplies made by him nor shall he be entitled to any credit of input tax.</i>



Section 10	Composition levy
Sub-section	Particulars
(5)	<p><i>If the proper officer has reasons to believe that a taxable person has paid tax under sub-section (1) or sub-section (2A), as the case may be despite not being eligible, such person shall, in addition to any tax that may be payable by him under any other provisions of this Act, be liable to a penalty and the provisions of section 73 or section 74 shall, mutatis mutandis, apply for determination of tax and penalty.</i></p>
	<p><i>Explanation 1 — For the purposes of computing aggregate turnover of a person for determining his eligibility to pay tax under this section, the expression “aggregate turnover” shall include the value of supplies made by such person from the 1<sup>st</sup> day of April of a financial year upto the date when he becomes liable for registration under this Act, but shall not include the value of exempt supply of services provided by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount.</i></p> <p><i>Explanation 2 — For the purposes of determining the tax payable by a person under this section, the expression “turnover in State or turnover in Union territory” shall not include the value of following supplies, namely: —</i></p> <ul style="list-style-type: none"> <li>(i) <i>supplies from the first day of April of a financial year up to the date when such person becomes liable for registration under this Act; and</i></li> <li>(ii) <i>exempt supply of services provided by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount.</i></li> </ul>

**Analysis of the Composition Scheme**

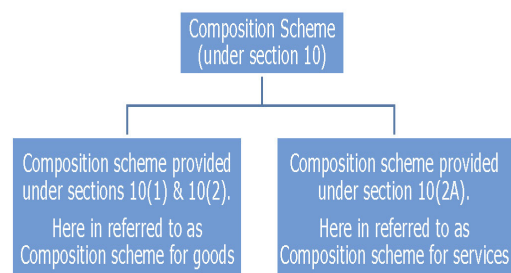
The composition levy is an alternative method of levy of tax designed for small taxpayers whose turnover is up to a prescribed limit. The objective of the composition scheme is to bring simplicity and to reduce the compliance cost for small taxpayers. Under this scheme, suppliers of goods have the option to pay tax at the concessional rate. Small taxpayers with an aggregate turnover in the preceding financial year up to Rs.1.5 crore are eligible to pay tax at lower rates in the current financial year.

Suppliers opting for composition levy need not worry about the classification of their goods or services or both, the rate of GST applicable on their goods and/ or services, etc. They are not required to raise any tax invoice but have to issue a Bill of Supply wherein no tax will be charged from the recipient.

Primarily, the composition scheme was available to the supplier of goods and restaurant services, but composition suppliers are permitted to supply services up to a specified

marginal value in the year opting for the composition scheme.

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 the prescribed percentage of his turnover every quarter. At the end of a quarter, he would pay the tax, without availing the benefit of input tax credit. Return is to be filed annually by a composition supplier.



### Turnover limit for opting composition scheme.

- The taxpayer shall be registered under the Composition Act;
- A taxpayer whose turnover is less than Rs. 1.5 crore and Rs 50 lakh in case of service.

A registered person opting for composition scheme for goods should have an aggregate turnover up to Rs. 1.5 crore [Rs. 75 lakh in 8 specified Special Category States] in the preceding financial year and he can avail the benefit of said scheme in the current financial year till the time his aggregate turnover in the current financial year does not exceed Rs. 1.5 crore/ Rs. 75 lakh. Similarly, a registered person opting for composition scheme for services should have an aggregate turnover upto Rs 50 lakh in the preceding financial year and he can avail the benefit of said scheme in the current financial year till the time his aggregate turnover in the current Financial Year does not exceed Rs. 50 lakhs.

- 8 specified states are Arunachal Pradesh, Mizoram, Sikkim, Tripura, Nagaland, Uttarakhand, Manipur, and Meghalaya.

### Aggregate turnover under composition levy

The definition of aggregate turnover as contained in section 2(6) of the CGST Act is summarized as follows.

The aggregate turnover is the sum of the value of all outward supplies falling in the following categories

- Taxable supplies
- Exempt supplies
- Exports of goods or services or both
- Inter-State supplies It excludes:
  - The value of inward supplies on which tax is payable by a person on a reverse charge basis
  - Taxes including cess paid under GST law.

It is computed on all India basis for a person having the same Permanent Account Number (PAN). Further, to compute aggregate turnover of a registered person for determining his eligibility to pay tax under this section, aggregate turnover includes the value of supplies from 1st

April of a financial year up to the date of his becoming liable for registration and excludes the value of exempt supply of services provided by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount. The value of exports and inter-State supplies are relevant only while determining the aggregate turnover of the preceding financial year. These values are not relevant for determining the aggregate turnover of the current FY in which the composition supplier has opted for a composition levy as he is not permitted to make inter-State supplies and exports in the said financial year.

### Turnover in State or turnover in Union territory under composition levy

As per section 2(112), turnover in State/ turnover in Union territory means the aggregate value of all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on a reverse charge basis) and exempt supplies made within a State or Union territory by a taxable person, exports of goods or services or both and inter-State supplies of goods or services or both made from the State or Union territory by the said taxable person but excludes central tax, State tax, Union territory tax, integrated tax, and cess.

Further, to determine the tax payable by a person under this section, the expression turnover in State or turnover in Union territory shall not include the value of following supplies, namely:

- (i) supplies from 1st April of a Financial Year up to the date when such person becomes liable for registration under this Act; and
- (ii) exempt supply of services provided by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount.

### Who is not Eligible for Composition Under GST?

A registered person who is not eligible for composition scheme for goods

- a. Supplier engaged in making any supply of goods which are not leviable to tax
- b. Supplier engaged in making any inter-State outward supplies of goods



- c. Person supplying any goods or services through an electronic commerce operator who is required to collect tax at source under section 52
- d. Manufacturer of ice cream, pan masala, tobacco, and aerated waters
- e. Supplier who is either a casual taxable person or a non-resident taxable person
- f. Supplier of services, save as provided in section 10(1).

A registered person who is not eligible for composition scheme for services

- a. Supplier engaged in making any supply of services that are not leviable to tax
- b. Supplier engaged in making any inter-State outward supplies of services
- c. Person supplying any goods or services through an electronic commerce operator who is required to collect tax at source under section 52
- d. Manufacturer of notified goods [ice cream, pan-masala, tobacco, and aerated waters] or supplier of notified services
- e. Supplier who is either a casual taxable person or a non-resident taxable person.

**Interest income to be excluded for determining the value of turnover in a State or Union territory under the second proviso to section 10(1)**

Generally, businesses tend to save and invest money in the form of deposits, loans, or advances. However, this way they get engaged in the supply of service by way of extending deposits, loans, or advances – a service other than restaurant service. And where the income from such services causes the value of services supplied to exceed the value referred in the second proviso to section 10(1)30 [10% of the turnover in the preceding FY in a State/Union territory or Rs. 5 lakh, whichever is higher], said the business would have become ineligible for the composition scheme for goods and one has to opt out of the composition scheme. This can cause a lot of hardship to small businesses.

Given the above, an explanation is inserted to clarify that

for the purposes of the second proviso to section 10(1), the value of supply of exempt services by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount, shall not be taken into account for determining the value of turnover in a State or Union territory.

A registered person opting for the composition scheme may supply services [other than restaurant services] of value not exceeding 10% of the turnover in the preceding financial year in a State/Union territory or Rs. 5 lakh, whichever is higher. Thus, while computing the value of services [other than restaurant services] as referred to in this proviso, interest on loans/deposits/advances will not be taken into account.

**Benefits of the Composition Scheme**

- The composite scheme has fewer compliances for the taxpayer.
- It reduces tax liability for the composite taxpayer.
- The composite taxpayer has to maintain fewer details in his books of accounts.
- The composite taxpayer has to file fewer returns under GST as compared to the normal taxpayer.

**Conditions and restrictions for composition levy**

A person opting for the composition levy has to comply with the following conditions

- he was not engaged in the manufacture of goods as notified under section 10(2)(e), during the preceding FY. The following goods have been hereby notified vide Notification No. 14/2019 CT dated 07.03.2019

Tariff item, subheading, chapter heading	Description
2105 00 00	Ice cream and other edible ice, whether or not containing cocoa
2106 90 20	Pan masala
24	All goods, i.e. Tobacco and manufactured tobacco substitutes
2202 1010	Aerated Waters

- he shall pay tax under section 9(3)/9(4)31 (reverse charge) on inward supply of goods or services or both.

- he is neither a casual taxable person nor a non-resident taxable person
- 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
- 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.

Further, where the goods held in stock by him are liable to be taxed under reverse charge, the tax thereon has been paid under reverse charge.

### Intimation of opting for composition levy

1. Intimation by the person applying for registration: Any person who is not registered and applies for registration may give the option to pay tax under the composition levy in Part B of the registration form, Form GST REG-01. The same shall be considered as an intimation to pay tax under the composition levy. Such intimation shall be considered only after the granting of registration to the applicant. The option to pay tax under the composition levy shall be effective from the date from which registration is effective.
2. Intimation by a registered person: A registered person who opts to pay tax under the composition levy scheme shall electronically file an intimation in the prescribed form on the GST Common Portal [www.gst.gov.in]. The intimation shall be filed before the commencement of the FY for which said option is exercised.

Any intimation in respect of any place of business in a State/UT shall be deemed to be an intimation in respect of all other places of business registered on the same PAN. The option to pay tax under the composition levy shall be effective from the beginning of the FY.

### Validity of composition levy [Rule 6]:

- (1) **Option valid - Till satisfaction of Conditions [Rule 6(1)]:** 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 these rules.

- (2) **Mandatory cessation of Composition levy on Violation of Conditions [Rule 6(2)]:** The composite taxable person *shall be liable to pay tax under the normal scheme* from the day *he ceases to satisfy any of the conditions* mentioned in Section 10 or the provisions of this Chapter.

He shall issue a tax invoice for every taxable supply made thereafter, and he shall also file an intimation for withdrawal from the scheme in **FORM GST CMP-04 within 7 days** of the occurrence of such event.

- (3) **Application for Withdrawal from Scheme [Rule 6(3)]:** 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 EVC, electronically on the common portal.

- (4) **SCN for cessation of option on Violation of Conditions [Rule 6(4)]:** 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 Rules, he may issue a notice to such person in FORM GST CMP-05 to show cause within 15 days of the receipt of such notice as to why the option to pay tax u/s 10 should not be denied.

- (5) **Reply to SCN [Rule 6(5)]:** The registered person shall reply to the show-cause notice issued under Rule 6(4) in FORM GST CMP-06.

### Final order within 30 days of Receipt of Reply:

The proper officer shall issue an order in FORM GST CMP-07 within a period of 30 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.

- (6) **Details of stock to be furnished on opting out of such Scheme [Rule 6(6)]:** Every person who has furnished an intimation under Rule 6(2) or filed an application for withdrawal under Rule 6(3) or a person in respect of whom an order of withdrawal of option has been passed in **FORM GST CMP-07** under Rule 6(5), 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 or denied, within **a period of 30 days** from the date from which the option is withdrawn or from the date of the order passed in **FORM GST CMP-07**, as the case may be.

He shall be entitled to avail of input tax credit in respect of the stock of inputs and inputs contained in semi-finished or finished goods held in stock by him and on capital goods held by him on the date of withdrawal.

**(7) Withdrawal applies to all units [Rule 6(7)]:** Any intimation or application for withdrawal under Rule 6(2) or (3) or denial of the option to pay tax under Section 10 in accordance with Rule 6(5) 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.

**Penalty provisions in case of irregular avilment of the composition scheme:** If a taxable person has paid tax under the composition scheme though he was not eligible for the scheme, the person would be liable to penalty and the provisions of Section 73 or 74 of the CGST Act shall be applicable for the determination of tax and penalty. All

registered persons having the same Permanent Account Number (PAN) have to opt for the composition scheme. If one such registered person opts for normal scheme, others become ineligible for the composition scheme

**Example:** A dealer 'Gupta & Brothers' has two offices in Delhi and is eligible for composition levy for goods. If 'Gupta & Brothers' opts for the composition scheme for goods, both the offices would pay taxes under the composition scheme and abide by all the conditions as may be prescribed for the said composition scheme

### The composition scheme supplier cannot collect tax

A taxable person opting for the composition scheme shall not collect tax from the recipient on supplies made by him. It implies that a composition scheme supplier cannot issue a tax invoice.

### Disqualification and Penalty

If tax authorities believe that a business is wrongfully enrolled or not eligible, they may disqualify the business from the composition scheme or demand a penalty equal to the tax amount owed. In case of late filing of GSTR-4, the business owner will be fined Rs. 100 per day to a maximum amount of Rs. 5,000/-. Also, not furnishing returns for 3 consecutive tax periods may result in the cancellation of registration by the tax authorities.

### Rates under the Composition scheme

Composition Scheme	Eligible Persons	IGST	CGST	Total
For Goods	Manufacturer	0.5%	0.5%	1%
	Restaurant Service not serving alcohol	2.5%	2.5%	5%
	Other	0.5%	0.5%	1%
For Service	Other Suppliers	3%	3%	6%

### Composition Scheme Form and Returns

GST return is a document that contains all the details of sales, purchases, tax collected on sales (output tax), and tax paid on purchases (input tax). Once we file GST returns, we will need to pay the resulting tax liability (money that we owe to the government). Composition Scheme Rules under GST provides for the submission of different forms, which are as follows

Forms	Purpose	Due Dates
Form GST CMP-01	To opt into the scheme by provisional GST registration holder(from the VAT regime)	Prior to the appointed date or within 30 days of the said date
Form GST CMP-02	Intimation of willingness to opt into the scheme for GST-registered normal taxpayers	Before the commencement of the Financial Year
Form GST CMP-03	Details of stock and inward supplies from registered and unregistered persons	Within 90 days of the exercise of the option
Form GST CMP-04	Intimation of withdrawal from the scheme	Within 7 days of the occurrence of the event
Form GST CMP-05	Show cause notice on contravention of Rules or Act by a proper officer	On any contravention
Form GST CMP-06	Reply to show cause notice	Within 15 days
Form GST CMP-07	Issue of Order	Within 30 days
Form GST CMP -08	To deposit payments every quarter	18 <sup>th</sup> of the month succeeding the quarter
Form GST REG-01	Registration under the Composition scheme	Prior to the appointed date
Form GST ITC-01	Details of inputs in stocks, semi-finished, and finished goods	30 days of withdrawing option
Form GST ITC-03	Intimation of ITC available	Within 60 days of commencement of the financial year

### Practical Illustrations

**1. PQ Ltd. has two registered places of business in the State of Madhya Pradesh. Its aggregate turnover during the previous financial year was Rs.62 lakhs. It wishes to opt for a composition levy under sub-section (1) and (2)**

**of section 10 for one of the places of business in the current year and wants to continue with registration under the regular scheme and pay taxes at the normal rate for the other place of business. Can PQ Ltd. do so? Explain with reason.**

**Ans:** As per the relevant provision, where more than one registered persons are having the same PAN issued under the Income-tax Act, 1961, the registered person shall not be eligible to opt for the composition scheme under section 10(1) unless all such registered persons opt to pay tax under said composition scheme. In the given case, since MN Ltd. has two places of business (they are not separate entities

under the Income-tax Act, 1961), they would be registered under the same PAN. Therefore, MN Ltd. cannot opt a for composition levy for only one of the places of business and pay tax under the r regular scheme for another place of business. For availing the option to pay tax under the composite scheme it has to register both the places of business having the same PAN.

**2. Tintin Industries, registered in Himachal Pradesh, is engaged in making inter-State supplies of readymade garments. The aggregate turnover of Tintin Industries in the preceding financial year is Rs. 70 lakh. It has opted for composition levy under sub-section (1) and (2) of**





section 10 in the current financial year and paid tax for the April – June quarter of the current year under the composition levy. The proper officer has levied penalty for wrongly availing the scheme on Tintin Industries in addition to the tax payable by it. Examine the validity of the action taken by the proper officer.

Ans: As per section 10(1), a registered person, whose aggregate turnover in the preceding financial year did not exceed Rs. 1.5 crore in a State/UT [Rs. 75 lakh in the case of Special Category States except for Assam, Himachal Pradesh, and Jammu and Kashmir], may opt for the composition scheme. However, he shall not be eligible to opt for the composition scheme if, he is engaged in making any inter-State outward supplies of goods or services. In the given case, since Tintin Industries is engaged in making inter-State supplies of readymade garments, it is not eligible to opt for the composition scheme in the current year irrespective of its turnover not exceeding the threshold limit of Rs. 75 lakh in the preceding FY. Further, if the proper officer has reasons to believe that a taxable person has paid tax under the composition scheme despite not being eligible, such person shall, in addition to any tax payable, be liable to a penalty and the provisions of section 73 or section 74 shall, mutatis mutandis, apply for determination of tax and penalty. Thus, the action taken by the proper officer of levying the penalty for wrongly availing the composition scheme is valid in law.

3. Mr. X opened a retail shop - 'Sunlight House' in Janta Market, Jaipur, Rajasthan on 01st April, 2022 on the same date he obtained the registration on the same date. He opted to pay tax under Section 10 of the CGST Act, 2017 in the said financial year. The aggregate turnover of the retail shop for the quarter ending 30th June 2022 was Rs.40 lakh. Further, for the half year

ending 30th September 2022, the turnover reached Rs.85 lakh. 'Sunlight House' recorded a rapid growth and the turnover reached Rs.150 lakh by the end of December 2022 and Rs.165 lakh by the end of January 2023. Determine the total tax liability of Sunlight House. Mr. X has duly complied with the provisions of GST laws. The normal rate of tax in respect of goods sold in the shop is 12%.

Ans: Section 10(1) of the CGST Act, 2017 provides that a registered person, whose aggregate turnover in the preceding financial year did not exceed Rs. 1.5 crore in the State of Rajasthan, will be eligible to opt for payment of tax under the composition scheme. According to Section 10(3), the benefit of the composition scheme can be availed up to the aggregate turnover of Rs.1.5 crore in the current financial year. The option availed of by a registered person under Section 10(1) shall lapse with effect from the day on which his aggregate turnover during a financial year exceeds the limit of Rs. 1.5 crore.

For the purposes of determining the tax payable by a person under this section, the expression "turnover in State or turnover in Union territory" shall not include the value of following supplies, namely: –

- (i) supplies from the first day of April of a financial year upto the date when such person becomes liable for registration under this Act; and
- (ii) exempt supply of services provided by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount.

Thus, Sunlight House is eligible to pay tax under this section upto the turnover of Rs.150 lakh. The total tax payable by it is as under: -

Period	Tax rate	Turnover (Rs.)	Tax liability (Rs.)
1st Quarter	Since turnover did not exceed `40 lakh, it was not required to obtain registration. Hence, no tax was required to be paid	40 lakh	Nil
2nd Quarter	Effective rate is 1% (CGST+ SGST/UTGST)] under Section 10(1)	45 lakh [(85-40) lakh]	45,000

Period	Tax rate	Turnover (Rs.)	Tax liability (Rs.)
For 3rd Quarter	Effective rate is 1% (CGST+ SGST/UTGST)] under Section 10(1) up to `150 lakh	65 lakh [(150-85) lakh]	65,000
For the month of January 2023	The normal rate of tax i.e. 12% will be applicable	15 lakh (165 -150) lakh]	1,80,000
Total tax liability			2,90,000

**4. Narayan traders are engaged in the trading of goods within the state of Maharashtra. In the preceding financial year, it has a turnover of Rs. 140 lakh from the trading of goods. Further, it has also earned a bank interest of Rs.20 lakh from the fixed deposits. Narayan traders wishes to opt for the composition scheme in the current year. You are required to advise Narayan traders on the same. Would your answer be different if Narayan traders is also engaged in supply of farm labour and the turnover from the said activity is Rs.14 lakh?**

*Ans: The eligibility of Narayan Trader under the composition scheme is discussed as under-*

- *Eligibility under the Composition scheme: As per Section 10(1) of the CGST Act, 2017, a registered person, engaged in the trading of goods and supplier of services whose aggregate turnover in the preceding financial year did not exceed Rs. 1.5 crore, may opt to pay, in lieu of the tax payable by him, an amount calculated at the specified rates.*
- *According to the GST Act, "Aggregate turnover" shall include the value of supplies made by such person from the 1st day of April of a financial year upto the date when he becomes liable for registration under this Act, but shall not include the value of exempt supply of services provided by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount. Thus, in computing his aggregate turnover to determine his eligibility for the composition scheme, the value of supply of any exempt services by way of extending deposits, loans, or advances in so far as the consideration is represented by way of interest or discount, shall not be taken into account.*
- *Narayan traders are eligible for composition*

*scheme: In the given case, the services provided by Narayan traders apart from trading of goods, viz. services by way of extending deposits where the consideration is represented by way of interest shall not be taken into account for computation of aggregate turnover for determination of eligibility of composition scheme. Since the aggregate turnover of Narayan traders does not exceed Rs. 1.5 crores in the preceding financial year, it shall be eligible to opt for the composition scheme.*

- *Narayan traders is not eligible for the composition scheme: However, if Narayan traders is also engaged in the supply of farm labour, it will not be eligible for the composition levy since the only value of the supply of exempt services by way of extending deposits, loans, or advances in so far as the consideration is represented by way of interest or discount, shall not be taken into account. Other exempt services shall be taken into account. Since its aggregate turnover is Rs.1.54 crores in the preceding financial year it will not be eligible to opt for composition scheme.*

**5. A Ltd. is a manufacturing concern in West Bengal. In Financial Year 2021-22 total value of supplies including inward supplies taxed under reverse charge basis is Rs. 1,53,60,000. (exclusive of taxes). The break-up of supplies are as follows –**

Particulars	Amount (Rs)
(1) Intra-State Supplies made under forward charge	75,00,000
(1) Intra-State Supplies of goods which are chargeable to GST at Nil rate	43,00,000



Particulars	Amount (Rs)
(1) Intra-State Supplies which are wholly exempt under Section 11 of CGST Act, 2017	32,00,000
(1) Value of exempt supply of services being interest earned on fixed deposits with the bank	1,00,000
(1) Value of inward supplies on which tax is payable under RCM	2,60,000

**Briefly explain whether A Ltd. is eligible to opt for the Composition scheme in Financial Year 2022-23.**

*Ans: A registered person, whose aggregate turnover in the preceding financial year did not exceed Rs. 1,50,00,000, may opt for payment of tax under the Composition scheme.*

- As per Section 2(6) of the CGST Act, 2017, "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 a 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.
- Accordingly, for the purposes of computing aggregate turnover of a person for determining his eligibility to pay tax under this section, the expression "aggregate turnover" shall not include the value of exempt supply of services provided by

way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount.

Thus, aggregate turnover shall be computed as under —

**Computation of Aggregate Turnover (amount in ₹):**

(1) Supplies made under forward charge	75,00,000
(2) Supplies made which are chargeable to GST at Nil rate (covered under exempt supply)	43,00,000
(3) Supplies that are wholly exempt under Section 11 of the CGST Act, 2017	32,00,000
(4) Value of exempt supply of services being interest earned on fixed deposits with the bank	Nil
(5) Value of inward supplies on which tax payable under RCM (specifically excluded)	Nil
<b>Total</b>	<b>1,50,00,000</b>

*Since Aggregate turnover does not exceed Rs. 1,50,00,000 during the Financial Year 2021-22, So, A Ltd. is entitled for Composition Scheme for Financial Year 2022-23.*

**6. AXT Ltd. a manufacturing concern of Uttar Pradesh having an aggregate turnover of Rs. 120 lakhs in the financial year 2021-22 has opted for composition scheme and furnishes you with the following information for Financial Year 2022-23. It requires you to determine its composition tax liability and total tax liability. The break-up of supplies are as follows –**

Particulars	Amount (Rs)
(1) Intra State Supplies of Goods X chargeable @ 5% GST	30,00,000
(2) Intra State Supplies of goods which are chargeable to GST at Nil rate	18,00,000
(3) Intra-state supply of services chargeable with 5% GST	6,00,000
(4) Interest earned on fixed deposits with banks	8,00,000
(5) Intra-state supplies which are wholly exempt under Section 11 of CGST Act, 2017	2,40,000
(6) Value of inward supplies on which tax payable under RCM (GST Rate 5%)	5,00,000

Particulars	Amount (Rs)
(7) Intra State Supplies of Goods Y chargeable @ 18% GST	30,00,000

Also, determine composition tax liability if AXT Ltd. is a trader instead of a manufacturer.

Ans: The composition tax liability of A Ltd. shall be as under –

Computation of Aggregate Turnover and composite tax (amount in Rs.):

Particulars	Manufacturer	Trader
(1) Intra State Supplies of Goods X chargeable @ 5% GST	30,00,000	30,00,000
(2) Intra State Supplies of goods which are chargeable to GST at Nil rate	18,00,000	----
(3) Intra-state supply of services chargeable with 5% GST	6,00,000	6,00,000
(4) Interest earned on fixed deposits with banks [WN-2]	----	----
(5) Intra-state supplies which are wholly exempt under Section 11 of CGST Act, 2017	2,40,000	----
(6) Value of inward supplies on which tax payable under RCM (GST Rate 5%) (not to be included)	5,00,000	
(7) Intra State Supplies of Goods Y chargeable @ 18% GST	30,00,000	Nil
Aggregate turnover	86,40,000	66,00,000
Rate of composite tax	1%	1%
Total Composite tax (A)	86,400	66,000

(2) Tax payable under reverse charge basis (amount in Rs):

Value of inward supplies on which tax is payable under RCM	5,00,000	5,00,000
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Rate of GST	5%	5%
Tax payable under RCM (B)	25,000	25,000
Total Tax liability [A +B]	1,11,400	91,000

**Working Note:**

(1) Section 10(1) provide that a composition supplier may supply services of value not exceeding 10% of the turnover in the preceding financial year in a State or Union Territory or Rs.5 lakhs whichever is higher. Thus, A Ltd. can supply services to the extent of 10% of Rs.120 lakhs i.e. Rs. 12 lakhs. According to the explanation to Section 10(1), the value of exempt supply of services provided by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount shall not be taken into account for determining the value of turnover in a State or Union territory.

Since the value of services provided excluding interest earned on deposits is Rs.6,00,000 which is within the limit of Rs. 12 lakhs, hence A Ltd. is eligible for the composition scheme.

(2) According to Explanation 2 to Section 10, for the purposes of determining the tax payable by a person under this section, the expression “turnover in State or turnover in Union territory” shall not include the value of exempt supply of services provided by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount.

### FAQ

**When will a person opting for composition levy pay tax?**

A person opting for a composition levy will have to pay tax every quarter before the 18th of the month succeeding the quarter during which the supplies were made.

**How will the aggregate turnover be computed for the purpose of composition?**

Aggregate turnover will be computed on the basis of turnover on an all India basis and will include the value of all taxable supplies, exempt supplies, and exports made



by all persons with the same PAN, but would exclude inward supplies under reverse charge as well as central, State/Union Territory and Integrated taxes and cess.

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

No. A taxable person opting to pay tax under the composition scheme is out of the credit chain. He cannot take credit for his input supplies. When he switches over from the composition scheme to the normal scheme, eligible credit on the date of transition would be allowed.

**Can a registered person, who purchases goods from a taxable person paying tax under the composition scheme, avail credit of tax paid on purchases made from the composition dealer?**

No, as the composition dealer cannot collect tax paid by him on outward supplies from his customers, the registered person making purchases from a taxable person paying tax under the composition scheme cannot avail credit

**Is Uniform application of the composition scheme for a person having the same pan number compulsory?**

Yes, it is compulsory. It can be understood as “A dealer ‘Gupta & Brothers’ has two offices in Delhi and is eligible for composition levy for goods. If ‘Gupta & Brothers’ opts for the composition scheme for goods, both the offices would pay taxes under the composition scheme and abide by all the conditions as may be prescribed for the said composition scheme”.

**Whether the composition scheme is optional or compulsory?**

Yes, it is optional, and voluntary in nature.

**Can a Composition Dealer issue a Tax Invoice?**

No. Since a Composition Dealer is not allowed to avail input tax credit, such a dealer cannot issue a tax invoice as well. A buyer from composition dealer will not be able to claim input tax on such goods.

**Which returns are required to be filed by a taxable person registered under Composite Scheme?**

The taxable person is required to furnish only one return i.e. GSTR-4 on a quarterly basis and an annual return in FORM GSTR-9A. Quarterly return needs to be furnished by the 18th of the month succeeding the quarter. For example, return in respect of supplies made from January 2023 to March 2023, is required to be filed by 18th April 2023.

**Can a Composition Dealer collect composition tax separately?**

No, a Composition Dealer is not allowed to collect composition tax from the buyer.

**When will a person opting for composition levy pay tax?**

A person opting for composition levy will have to pay tax on a quarterly basis before the 18th of the month succeeding the quarter during which the supplies were made.

**Can a person making an application for fresh registration under GST opt for the composition levy at the time of making an application for registration?**

Yes. Such persons can give the option to pay tax under the composition scheme in Part B of FORM GST REG-01. This will be considered as an intimation to pay tax under the composition scheme.

**What is the validity of the composition levy?**

The option to pay tax under composition levy would remain valid so long as conditions mentioned in section 10 of the CGST Act, 2017 and Rule 3 to 5 of the CGST Rules, 2017 remain satisfied

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

The registered person who intends to withdraw from the composition scheme can file a duly signed or verified application in FORM GST CMP-04. Every person who has filed an application for withdrawal from the composition scheme may electronically furnish, 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 of withdrawal, within a period of thirty days of withdrawal. But a person can switch from composition to regular only at the beginning of the FY and not during the year.

