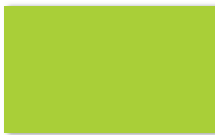


Composition Scheme

Composition Scheme under • GST



What is Composition Scheme?

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- Composition levy is an alternate method of the levy of GST, designed specifically for small manufacturers and traders.
- It is a scheme under which there is an option to pay taxes in lieu of the normal rate applicable for the goods and services.
- Person having eligible aggregate turnover* can opt for the scheme. The turnover, for this purpose, is to be seen for the previous financial year.
 - Normal Composition Scheme - Rs. 1.5 Cr per annum/ Rs. 75 lacs for special states
 - 'Alternate' Composition scheme – Rs. 50 Lacs per annum

* Value of interest or discount arrived at due to extending deposits, loans and advances not to be considered while calculating turnover

Salient features

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- Limited compliances
 - Quarterly Return in form GST CMP-08 giving summary of Outward & Inward supplies and tax thereof. Pay the tax by the 18th of the month succeeding the quarter.
 - Return for the financial year in form GSTR-4 and an annual return in form GSTR-9A.
 - No need for maintaining detailed records
 - No need to wait for suppliers to file returns to match ITC etc.
- The taxable person shall not collect any tax from the recipient w.r.t. the supplies made.
- The taxable person is not entitled for any Input Tax Credit for the inward supplies. Further, he is required to discharge the RCM liability, as applicable.
- As long as the person is within the provisions of the Scheme, there is no need to file fresh intimation for continuation every year.
- The option shall lapse with effect from the day on which the aggregate turnover crosses the threshold limit.

Restrictions

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- In case of multiple registrations under the same PAN number, uniformity of opting either Normal or Composition scheme for all the entity registered under the said PAN number to be maintained.
- Scheme is applicable on supply of goods and supply of services (with certain caveats)
- Person should not be engaged in supply of goods or services not leviable to GST under the Act.
- Can't make inter-state outward supplies of goods or services.
- Can't supply goods or services through E-Commerce Operator who is required to collect tax at source u/s 52 of the Act.
- Person is not a Casual Taxable Person or a non-resident taxable person
- Person is not manufacturer of goods or supplier of services as notified by the Government.
- “Bill of Supply” to be issued. “Composition Taxable Person not eligible to collect tax on supplies” to be written on the Bill of Supply issued.

Normal Composition Scheme

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- Aggregate Turnover* threshold limit – Rs. 1.5 Cr per annum/ Rs. 75 lacs for Special states (to be calculated for previous year)
- May supply Services (other than F&B services, excluding liquor) of value not exceeding 10% of the turnover** in a State in the preceding financial year or Rs. 5 lacs, whichever is higher. ** (Value of supply of any exempt services including interest or discount arrived at due to extending deposits, loans and advances not to be considered while calculating turnover)
- Rate of tax applicable
 - Manufacturers – 1% of the turnover
 - F&B services – 5% of the turnover
 - Any other suppliers – 1% of the turnover (excluding the value of exempt supplies)

‘Alternate’ Composition Scheme

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- Aggregate Turnover* threshold limit – Rs. 50 Lacs per annum (to be calculated for previous year)
- May supply goods or services or both.
- Rate of tax applicable – 6% of the turnover (excluding the value of interest arrived at due to extending deposits, loans and advances)
- The provisions contained in Chapter II of the CGST Rules shall, *mutatis mutandis*, apply to persons paying tax by availing the benefit of this scheme, except to the extent specified above.
- The turnover threshold for the purpose of determining the tax slab shall be calculated from 1st April of a financial year. Tax, however, shall be payable only on supplies from the date of registration.

Procedure - Registration

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- In case of migration from erstwhile law on the appointed date, intimation to be provided in form GST CMP-01, prior to the appointed day, but not later than 30 days after the said day.
- In case of new registration, the person may give an option in Part B of form GST REG-01. This shall be deemed to be the intimation to enrol for Composition Scheme.
- Effective date of levy shall be from the date fixed and provided in the Certificate issued in form GST REG-06.
- For the purposes of computing aggregate turnover, supplies from 1st April of a financial year up to the date when registers shall also be considered.
- Liability to pay taxes arises prospectively from the date of registration.

Procedure – Normal to Composition

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- Intimation in form GST CMP-02 prior to the commencement of the financial year (or the date as notified).
- Details of Input Tax credit relating to inputs held in stock, inputs contained in semi-finished/ finished goods and capital goods in form GST ITC-03 within 60 days from the commencement of the relevant financial year (or the notified date).
- Effective date of levy shall be from the beginning of the financial year.

Procedure – Composition to Normal

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- Intimation in form GST CMP-04
 - Within 7 days, in case of crossing the turnover threshold limit
 - Prior to date of withdrawal, in case of voluntary withdrawal
- In case the proper officer deem that the person is not eligible for Composition Scheme, show cause notice is issued in form GST CMP-05 to be responded within 15 days of the notice.
- Notice to be responded in form CMP-06 and the proper officer shall pass the order in form GST CMP-07 within 30 days, either accepting the response or denying the option.
- Statement in form GST ITC-01 containing details of the stock of inputs and inputs contained in semi-finished/ finished goods held, to be furnished within 30 days.

Composition Scheme

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Advantages

- Lesser compliances (Returns, maintaining Books etc.)
- Limited tax liability
- Lower tax rate may help in higher liquidity/ profitability

Disadvantages

- Limited territory to operate.
- No Input Tax Credit available
- Restrictions on businesses to operate on
- Restriction on supplies through E-Commerce Operator

HSN/ SAC Code



What is HSN/ SAC Code?

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- HSN – Harmonised System of Nomenclature (applicable for Goods)
- SAC – Service Accounting Code (applicable for Services)
- HSN or HS is a multipurpose international product nomenclature developed by the World Customs Organisation (WCO)
- WCO has 183 Members, three-quarters of which are developing countries, are responsible for managing more than 98% of world trade.
- India has been a member of WCO since 1971 and has been using HSN Code since 1986 to classify commodities for Customs and Central Excise.

HSN/ SAC Code under GST

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- Under GST, goods and services are classified on the basis of HSN code and SAC Code respectively.
- The Customs Tariff Act is based on HSN and is used to classify goods under GST. The GST rates are notified on the basis of Customs Tariff.
- Scheme of classification of services, as released by the Government, is used to classify services and the SAC Codes accordingly. GST rates are notified accordingly.
- SAC code has been defined separately for ease of understanding and bifurcating goods and services. Technically, SAC codes are part of the larger HSN universe, but are specified separately.
- Any changes or formulation or addition of new codes in HSN Codes are carried out by DGFT (Directorate General of Foreign Trade) in accordance with the guidelines from the WCO.

- HSN/ SAC code standardises the classification of goods and services, under
 - Section
 - Chapters
 - Headings
 - Sub-headings
- There are 21 sections in HSN Codes, divided in 99 Chapters wherein each chapter defines a specific category of a product.
- The sections and chapters are arranged in order of product's degree of manufacturer or in terms of its technological complexity. For example, natural products appear in the earlier section and items like machinery appears later.
- The section represents the broader classification and the chapter represent a particular class of goods. Further, the chapter is divided into headings and sub headings depending on the different types of goods belonging to the same class.

- It's a 6 digit code where
 - First 2 digits represents the chapter
 - The next 2 digits represents the heading
 - The last 2 digits represents the sub-heading
- Customs and Central Excise added 2 more digits to make the codes more precise, resulting in an eight digit classification for commodities.
- Section XI – Textile and Textile Products
 - Chapter 50 – Silk
 - Heading 03 – Silk Waste
 - Sub-heading 00 – Other silk waste
 - Sub-sub heading 10 – Mulberry silk waste

HSN Code

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- Section I (Chapters 1 to 5) - Animals and animal products
- Section II (Chapters 6 to 14) - Vegetable products
- Section III (Chapter 15) - Animal or vegetable fats and oils
- Section IV (Chapters 16 to 24) – Prepared foodstuffs, beverages, spirits, vinegar, and tobacco
- Section V (Chapters 25 to 27) - Mineral products
- Section VI (Chapters 28 to 38) - Chemical and para-chemical products
- Section VII (Chapters 39 to 40) - Plastics and rubber and articles thereof
- Section VIII (Chapters 41 to 43) - Animal hides, skins, leather products
- Section IX (Chapters 44 to 46) - Wood, cork, straw and articles thereof
- Section X (Chapters 47 to 49) - Pulp of wood, paper, paperboard and printed products
- Section XI (Chapters 50 to 63) - Textiles and textile articles

HSN Code

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- Section XII (Chapters 64 to 67) - Footwear, headgear, umbrellas, artificial flowers and articles of human hair
- Section XIII (Chapters 68 to 70) - Articles made of minerals, plaster, cement, ceramic and glass products
- Section XIV (Chapter 71) - Precious metals and stones
- Section XV (Chapters 72 to 83) - Base metals and articles thereof
- Section XVI (Chapters 84 to 85) – Machinery, mechanical appliances, electrical equipment, parts and accessories of such articles
- Section XVII (Chapters 86 to 89) - Vehicles, aircraft, vessels, and associated transport equipment
- Section XVIII (Chapters 90 to 92) - Optical, photographic, cinematographic, musical apparatus and equipment; measuring, medical, surgical, and other instruments; and clocks and watches
- Section XIX (Chapter 93) - Arms and ammunition
- Section XX (Chapters 94 to 96) - Miscellaneous manufactured articles like furniture, toys etc.
- Section XXI (Chapters 97 to 99) – Work of Art, collectors’ pieces and antiques, [Chapter 99 – SAC Codes]

Classification rules

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- Classification is to be arrived basis tariff entry, section notes and chapter notes provided.
- In case classification is not possible, General Interpretative Rules (GIR) is applied. The rules are applied sequentially.
- Rule 1 – Title of sections, chapters/ sub-chapters are provided for ease of reference only. For legal purposes, refer to headings and sub-headings to drive classification. If the meaning is not clear, refer to trade practices/ parlance, technical or dictionary meanings, BIS or other standards etc.
- Rule 2a - If the goods are incomplete/unfinished and have the characteristics of the finished product, classification is the same as that of the finished product (if the classification is known). The heading shall also include removed/ unassembled or disassembled parts (i.e., SKD/CKD).
- Rule 2b - Any reference to a material or substance includes a reference to mixtures or combinations of that material or substance with other materials or substances. The classification of goods consisting of more than one material or substance shall take place as per Rule 3.

Classification rules

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- Rule 3a - Choosing a specific heading is preferred over a general heading. For example, 85.10 is the classification for "shavers, hair clippers and hair removing appliances, with self-contained electric motor". This is a more specific classification for a handheld electric razor than either: 84.67: "tools for working in the hand, pneumatic, hydraulic or with self-contained electric or non-electric motor" or 85.09: "electromechanical domestic appliances with self-contained electric motors, other than vacuum cleaners".
- Rule 3b - Mixtures/ composite goods should be classified as per the material or substance that gives them their essential character. Eg. a grooming kit consisting of electric hair clippers (85.10), a comb (96.15) and a brush (96.03) inside a leather case (45.02) should be classified under the electric hair clippers heading (85.10).
- Rule 3c - If two headings are equally suited to the item, choose the heading that appears last in numerical order.
- Rule 4 - If goods cannot be classified per the above rules, they are to be classified according to the goods to which they are most akin.
- Rule 5 - Containers specifically designed for the article and suitable for long-term use will be classified along with that article, if such articles are normally sold along with such cases. For example, a camera case would fall under cameras. Packing materials and containers are also to be classified with the related goods except when the packing is for repetitive use.

- Under Customs Tariff, Chapter 1-98 is used for goods and Chapter 99 is reserved for services.
- Scheme of classification of services has been notified by Government as per Annexure to Notification 11/2017 – Central Tax (Rate)
- SAC Codes are classified under 5 sections. This forms the third digit in the SAC code
 - Section 5 – Construction Services
 - Section 6 – Distributive Trade services, Accommodation, Food services, Transport services
 - Section 7 – Financial and related services, Real Estate, Rental services
 - Section 8 – Business and production services
 - Section 9 – Community, social & personal services and miscellaneous services

- Each section is divided into heading (fourth digit). They are further divided into group (fifth digit). A further division is made to arrive at the tariff item (sixth digit).
- Chapter 99 – SAC Code
 - Section 6 – Transport services
 - Heading 4 – Passenger Transport Services
 - Group 1 – Local transport and sightseeing transportation services of passengers
 - Tariff item 2 - Taxi services including radio taxi & other similar services

Using HSN/ SAC Code

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- Vide Notification 12/2017 – Central Tax, the Government has notified the usage of HSN Code for tax invoice as
 - Dealers with turnover of less than Rs 1.5 crores – Not mandatory.
 - Dealers with turnover between Rs 1.5 crores and Rs 5 crores - two-digit HSN codes
 - Dealers with turnover equal to Rs 5 crores and above - four-digit HSN codes
- In the case of imports/exports of goods, HSN codes of eight digits shall be compulsory, as GST has to be compatible with international standards and practices.

Using HSN/ SAC Code

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- Vide Notification 78/2020 – Central Tax, w.e.f. 1st April 2021, the Government has notified the usage of HSN Code for tax invoice as
 - Dealers with turnover up to Rs. 5 Cr. – four digits
 - Dealers with turnover equal to Rs 5 crores and above – Six digits
- For dealers with turnover up to Rs. 5 Cr., HSN Code is not mandatory in case of tax invoice issued to unregistered person.
- In the case of imports/exports of goods, HSN codes of eight digits shall be compulsory, as GST has to be compatible with international standards and practices.