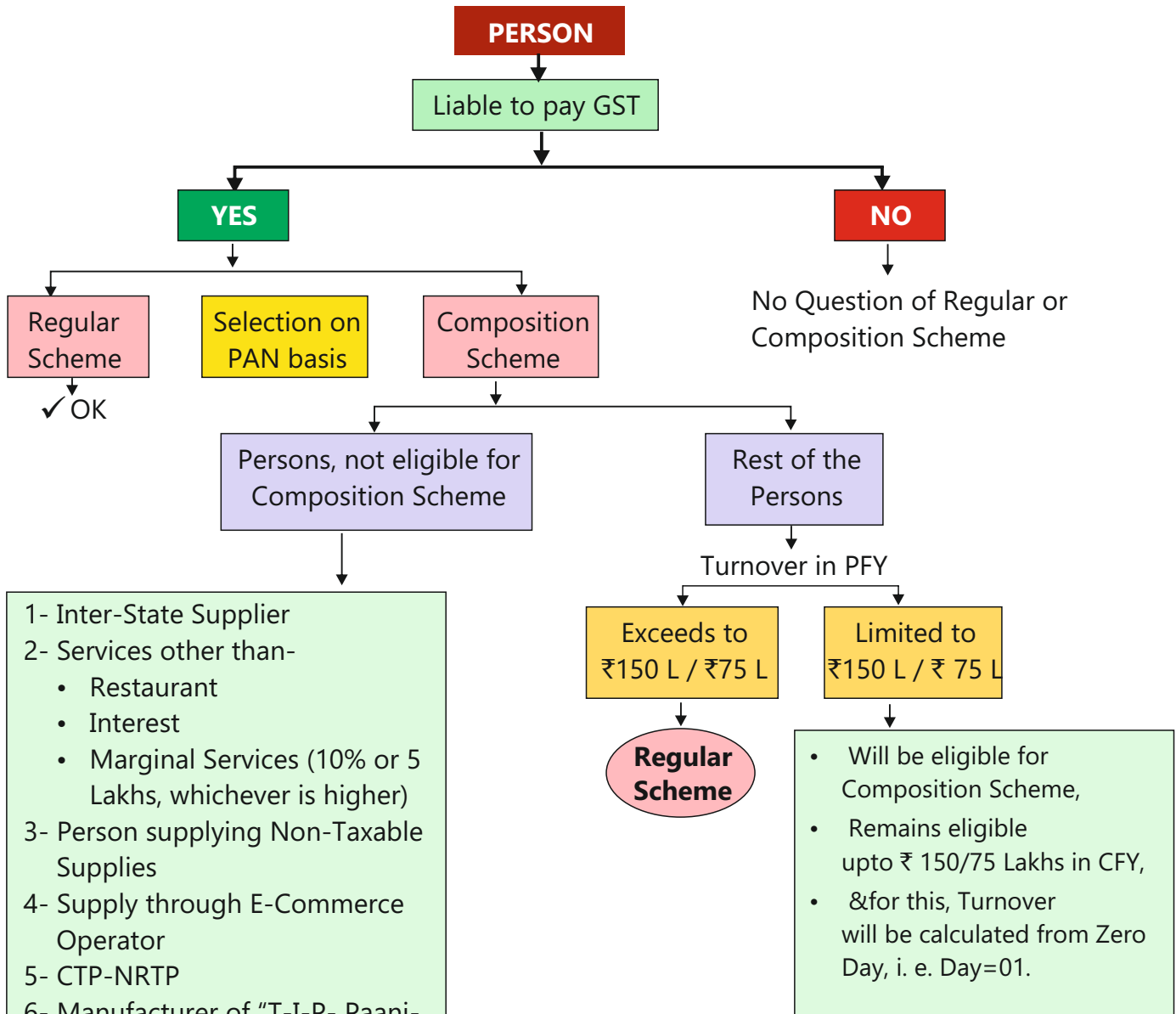


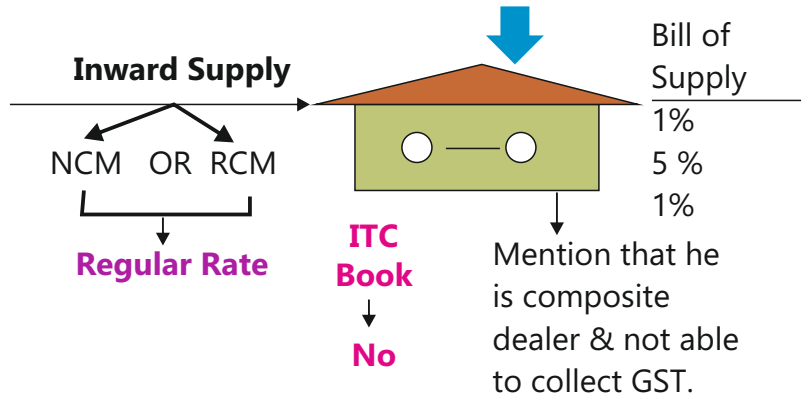
## Composition Scheme



- 1- Inter-State Supplier
- 2- Services other than-
  - Restaurant
  - Interest
  - Marginal Services (10% or 5 Lakhs, whichever is higher)
- 3- Person supplying Non-Taxable Supplies
- 4- Supply through E-Commerce Operator
- 5- CTP-NRTP
- 6- Manufacturer of "T-I-P- Paani-Aag" [Tobacco, Ice Cream, Pan Masala, Aerated Water, Blocks & Bricks, Tiles].

↓

**Regular Scheme**



- Payment: Quarterly by 18 th
- Statement: CMP 08 (Quarterly) by 18 th
- Return: GSTR 04 (Annually) by 30 th April of Next FY
- Books of Accounts: Lesser record maintenance.

### Eligibility of Scheme & Computation of GST

#### What is composition scheme:

It is an alternate method to pay tax. It is an optional scheme. It is PAN based scheme applicable for all registrations/ taxable persons registered under same PAN.

#### Who is eligible:

If Aggregate turnover (**all outward supplies ie taxable, exempted etc**) of a person **IN PFY** does not exceeds to 75 Lakh/ 150 lakh: then the person will be eligible for composition scheme in CFY.

75 lakh limit applicable for 8 states: Manipur, Mizoram, Nagaland, Tripura, Arunachal Pradesh, Uttarakhand, Meghalaya, Sikkim.

#### Upto what date the person remains eligible:

**Once the person eligible for composition scheme he will remain eligible upto Turnover of ₹150/ 75 lakh. [Note: for calculation of this limit counting of turnover will be started from day-1 ie from ZERO]**

In CFY after aggregate turnover of ₹150/ ₹ 75 lakhs; the scheme will be lapsed and the person required to pay tax as per Regular rate of taxes under Regular scheme.

#### Analysis

##### New Registered Person: -

- 1) Eligible in CFY?
- 2) Up to what time he will remain eligible?
- 3) What will be the GST liability?

| <u>PFY</u>                       | <u>CFY</u>  |   |                         |                             |
|----------------------------------|---|---|-------------------------|-----------------------------|
| Turnover in this period was Zero | The person is eligible for Composition Scheme-                                    |   |                         |                             |
|                                  | Turnover<br>"NIL"   | Turnover<br>"10L/20L/40L"   | Turnover<br>150L+       | Turnover<br>200L (Year end) |
|                                  | -----   |   |                         |                             |
|                                  | ↓   | ↓   | ↓                       | ↓                           |
|                                  | Composition /<br>Regular Scheme = NO  | Composition<br>Scheme = Yes   | Regular<br>Scheme = Yes |                             |
| ↓                                | ↓   | ↓   | ↓                       |                             |
| GST = NO                         | GST = Yes<br>@ Composite<br>Rate without ITC<br>@ 1 %<br>130 L x 1%<br>= 1.3 Lakh | GST = Yes<br>@ Regular<br>Rate with ITC<br>50 lakh x 18% = 90 lakhs |                         |                             |

## Existing Registered Person: -

| PFY   | CFY  |                        |  |                          |
|---|--|------------------------|--|--------------------------|
| Turnover in this period was limited to 150Lakhs | The person is eligible for Composition Scheme-                             |                        |  |                          |
|   | Turnover "NIL"   | Turnover "10L/20L/40L" | Turnover 150L+   | Turnover 200L (Year end) |
|   | Composition Scheme = Yes   |                        | Regular Scheme = Yes   |                          |
|   | GST = Yes<br>Amount = 150L*1% = 1.5Lakhs<br>i.e Composite Rate without ITC |                        | GST = Yes<br>Amount = 50L*18% = 9Lakhs<br>i.e. Regular Rate with ITC |                          |

## Other conditions of eligibility of Composition scheme

### For Goods Focused Composition Scheme; Section 10 (1) (2)

### Who is not eligible for composition Scheme - SIX categories of persons [to be checked in CFY]

- (1) Person making inter-state supply of goods/Services [eg. one state to another, export of goods]
- (2) Supplier of any service OTHER than
  - (a) Restaurant services
  - (b) Interest received on extending deposit loan and advances shall be ignored completely.**
  - (c) Limited value services along with main business. [Maximum value: 10 % of **turnover within the state/UT** or 5,00,000 whichever is higher] ie if value of these services exceed the maximum limit then the person not eligible for the scheme
- (3) Supplier of non- taxable good /services.
- (4) The person who supply goods/services through E commerce operator.
- (5) Manufacturer of specified goods.

|   |
|---|
| Pan masala, tobacco, ice cream, Aerated Water   |
| Fly ash bricks or fly ash aggregate   |
| Fly ash blocks  |
| Bricks of Fossil meals or similar siliceous earths  |
| Building bricks   |
| Earthen or roofing tiles  |
| NOTE: Moreover if any supplier engaged in making supply of above goods then he will not be eligible for Registration limit of 40 lakhs. |

(6) Casual taxable person and NR. (Banjaare)



**Question.** A person engaged in the business of selling watch in Haryana and also engaged in providing Repairing services ON INTER STATE BASIS (within the limit of 5,00,000 or 10%) whether the person will be eligible for Composition scheme.

**Answer.** As per old law: YES, will be eligible  
As per Amended Law: NO, he will not be eligible

### Composite Tax Rates and Procedural Part

**IN CFY**

**Inward supply**

NCM or RCM

Regular rate of GST

Registered person  
(Voluntarily or otherwise)  
Composite Dealer (NO ITC shall be allowed)

**Outward Supplies**

GST to be paid as per composite rate

|          |                                   |    |  |
|----------|-----------------------------------|----|--|
| <b>A</b> | Manufacturer                      | 1% | Of Turnover with in the state (All supply ; taxable, exempted) |
| <b>B</b> | Restaurant service                | 5% | Of Turnover with in the state (All supply ; taxable, exempted) |
| <b>C</b> | Other supplier of goods/ services | 1% | Of Taxable turnover with in the state                          |

**Composite tax rates not applicable on RCM supplies:** If any inward supply taken under RCM then composite rates of GST will not be applicable but GST to be paid as per normal rate of tax.)

**No Input Tax Credit:** A composite dealer Shall not be entitled to any credit of input tax.

**Issue Bill of Supply instead of Invoice:** Such dealer shall issue: BILL OF supply instead of invoice and can-not charge GST from the customer and composite tax will not be input tax for buyer and accordingly buyer will not be eligible for ITC.

**Quarterly payments and Returns:** Quarterly return and payments by 18th of next month and minimum books of accounts and show off as he is a composite dealer.

**Fraudulent Intent:** If the proper officer has reasons to believe that a taxable person has paid tax under composition scheme 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.**

## Practice:

**Q.1 Mr X, a manufacturer submit the following details for PFY XX-XY. Determine whether he is eligible for composition scheme for CFY (19-20)**

|    |  |            |
|----|--|------------|
| 1. | value of intra state supply under XY-XZ    | 105,00,000 |
| 2. | intra state exempted supply                | 13,00,000  |
| 3. | intra state supply covered under 100% E/N  | 32,00,000  |
| 4. | value of inward supplies covered under RCM | 2,50,000   |
| 5. | value of inward supplies covered under NCM | 3,00,000   |

### Ans:

|    |  |            |
|----|--|------------|
| 1. | value of intra state supply under NCM      | 105,00,000 |
| 2. | intra state exempted supply                | 13,00,000  |
| 3. | intra state supply covered under 100% E/N  | 32,00,000  |
| 4. | value of inward supplies covered under RCM | -          |
| 5. | value of inward supplies covered under NCM | -          |
|    | Aggregate turnover                         | 150,00,000 |

**Mr X is eligible for composition scheme as aggregate turnover does not exceed 150 lakh**

**Q.2 Mr X, running a Restaurant, submit the following details for PFY 18 -19. Determine whether he is eligible for composition scheme for CFY (19-20).**

### Ans:

| Particulars                                    | Value in Lakhs | Value in XY-XZ | Value in lakhs |
|--|----------------|----------------|----------------|
| Value of Restaurant services                   | 130            | 130            | 130            |
| Interest received from banks                   | 30             | 30             | 30             |
| Other services: Renting of commercial property | 10             | 15             | 25             |

| Particulars                                    | Value in Lakhs                              | Value in lakhs  | Value in lakhs  |
|--|---|---|---|
| Value of Restaurant services                   | 130   | 130   | 130   |
| Interest received from banks                   | -   | -   | -   |
| Other services: Renting of commercial property | 10  | 15  | 25  |
| Eligibility                                    | Eligible as aggregate turnover is 140 lakh. | Not eligible as other services exceeds the max amount | Not eligible as other services exceeds the max amount |

Q.3 Mr. X, a trader (eligible for composition scheme), submit the following details for CFY 19 -20. Determine whether Mr. X should opt for composition scheme. Estimated data for CFY are as follows.

- Inward supplies ₹100 lakh chargeable to GST @ 12%
- Outward supplies: ₹125 lakh (inclusive of GST @12%).
- Inherent nature expenses ₹500,000 under both the schemes.
- Books of account maintenance cost under normal scheme ₹2,50,000 PA whereas under composition scheme it will be ₹1,00,000 PA.
- Return filing expenses under normal scheme ₹50,000 PA whereas under composition scheme it will be ₹10,000 PA.

Ans: computation of Profit under both the scheme.....

| Particulars                                  | GST under normal scheme | GST under composition scheme |
|--|-------------------------|------------------------------|
| Cost of inward supplies                      | 100,00,000              | 112,00,000                   |
| Inherent nature expenses                     | 5,00,000                | 5,00,000                     |
| Books of accounts maintenance cost           | 2,50,000                | 1,00,000                     |
| Return filing cost                           | 50,000                  | 10,000                       |
| <b>Total cost</b>                            | <b>108,00,000</b>       | <b>118,10,000</b>            |
| Value of outward supplies (inclusive of GST) | 125,00,000              | 125,00,000                   |
| Less: GST                                    | 13,39,286               | 1,25,000                     |
| Sale proceeds (net of tax)                   | 111,60,714              | 123,75,000                   |
| <b>Profit margin</b>                         | <b>3,60,714</b>         | <b>5,65,000</b>              |

Finally it can be concluded that in composition scheme the dealer gets higher profit so he should go with composition scheme.

## COMPOSITION SCHEME (SERVICE FOCUSED) : Section 10 (2A)

### MAIN BODY OF SCHEME:

- An Eligible person whose Aggregate Turnover in PFY was limited to ₹50 Lakh
- Will be Eligible to pay tax under this scheme @ 3% + 3% on first supplies of Goods/Service made from 1st April of CFY upto ₹50 Lakhs.

**Example:** Business start on 1-4-19 [Normal Rate = 18%, Composite Rate = 3%+3% = 6%]

| FY    | TURNOVER | ELIGIBILITY OF SCHEME   | TAXABLE VALUE | TAX       |
|-------|----------|---|---------------|-----------|
| 19-20 | 45 Lakh  | Composition<br>First ₹20 lakh<br>(Threshold limit)<br>Balance ₹25 lakh` | ₹ 25Lakh      | ₹1.5Lakh  |
| 20-21 | 60 Lakh  | Composition   | Up to 50 Lakh | 3 Lakh    |
|       |          | Regular   | 10 Lakh       | 1.8 Lakhs |
| 21-22 | 30 Lakh  | Regular   | 30 Lakh       | 5.4 Lakhs |
| 22-23 | 40 Lakh  | Composition   | 40 Lakh       | 2.4 Lakhs |

NOTE: Interest on Loan/Deposit/Advances should be completely Ignored.

### Who is Not Eligible for the Scheme:

- (i) Whose Aggregate Turnover Exceeds ₹50 Lakhs in PFY.
- (ii) Who is engaged in Making
  - Non Taxable Supplies
  - Inter State Supplies
  - 4 Specified Goods Supplied including aerated water
  - Supply through E-Commerce Operator
- (iii) Who is a casual Taxable Person?
- (iv) Who is eligible to pay tax under original composition scheme.

**Q:** A person Engaged in Supplying goods on well on service but service portion exceeds the limit specifies under original Notification ( `5 Lakhs or 10% whichever is Higher) whether such person will be Eligible for this scheme.

**Ans:** YES, Subject to fulfillment of Other Conditions.

### OTHER PARTS OF THE SCHEME

- (i) **PANBASED:**  
The scheme is Pan Based i.e. this scheme or Regular Scheme, it will be decided for All premises/registrations under same PAN i.e. All Premises/registrations Either Under this scheme or under Regular Scheme.
- (ii) **BILL OF SUPPLY:**  
The Supplier shall issue bill of supply instead of Invoice and not entitled to collect GST from his Recipient.
- (iii) **NO ITC:**  
No ITC Shall be Availed by the supplier who is availing this scheme. Moreover Tax Paid by such supplier out of his pocket (3% + 3%) will not be Input Tax for Recipient and Recipient also Eligible to Book ITC.
- (iv) **SHOW OFF:**  
The supplier shall mention on the Top of bill of supply "as" "Not Eligible to collect Tax on Supplies".
- (v) **CALCULATION OF 3% + 3%:**  
While Calculated composite tax, exempted supplies will also be taken to Include.
- (vi) **INWARD SUPPLY UNDER RCM:**  
The Composite Rate is applicable only on "Out-ward supplied made by him" i.e. if any inward supplies taken by him under RCM then regular Rate of Tax will be applicable & Not composite Rate of Taxes.
- (vii) **REMAINING PROVISION:**  
Remaining Provision of Original composition scheme shall be applicable Mutatis/ Mutandis.

## Differences between both the scheme

| Basis                            | Goods focused composition scheme   | Service focused composition scheme   |
|----------------------------------|--|--|
| <b>Available for</b>             | Person engaged in the business of—<br>*Exclusive Goods<br>*Restaurant<br>*Goods + Service (Interest)<br>*Goods + Other limited Value Services (10% or ₹5,00,000 : whichever is higher)                                     | Person engaged in the business of—<br>*Exclusive SERVICES<br>-<br>-<br>*Goods + Other limited Value Services (Exceeding 10% or ` 5,00,000 : whichever is higher)   |
| <b>Negative List</b>             | Person engaged in the business as—<br>*Inter- state supply of Goods /Services<br>* CTP/NRTP<br>*Through E commerce Operator Goods/ services<br>*Manufacturer of Notified Goods<br>*Non Taxable supplies of Goods /Services | Person engaged in the business as—<br>*Inter- state supply of Goods /Services<br>* CTP/NRTP<br>*Through E commerce Operator Goods/ services<br>*Manufacturer of Notified Goods<br>*Non Taxable supplies of Goods /Services |
| <b>Composite Rate</b>            | 1%, 5%,1%  | 6%   |
| <b>Turnover Limit in PFY/CFY</b> | ₹150 Lakh/ ₹75 Lakh  | ₹50 Lakh/ ₹50 Lakh   |