

COMPOSITION SCHEME UNDER GOODS AND SERVICES TAX- WHETHER TO OPT OR NOT?

WHAT IS THE GST COMPOSITION SCHEME?

GST composition scheme is a tax-paying mechanism offered to small businesses. Compared to regular GST filing, the composite scheme offers two main benefits: Reduced paperwork and Compliance and Lower tax liability.

For instance, normal taxpayers must submit three monthly GST returns (GST-1, GST-2, and GST-3) and one annual return (GST 9). However, if one has applied for the composition scheme GST, filing gets easier as he needs to file just one quarterly return (GSTR 4) and one annual return (GSTR 9A).

Upon registering for the composition scheme under GST, one will be liable to pay tax at a fixed rate of 1% to 6% of his turnover. For instance, if a

person is a manufacturer of goods other than tobacco, ice cream or pan. masala, then he must pay 1% tax basis his turnover.

GST COMPOSITION SCHEME RULES: -

As per the GST Act, a range of manufacturing and service businesses and traders can register under the GST composition scheme, excluding the following: -

- i. Individuals or businesses who supply goods through an e-commerce portal operator that collects tax at the source.
- ii. Non-resident taxable persons or casual taxable persons.
- iii. Ice cream manufacturers or manufacturers of other edible ice without cocoa as additives.
- iv. Manufacturers of pan masala and tobacco products and substitutes.
- v. Individuals or businesses who have purchased goods from unregistered suppliers.
- vi. Suppliers involved in the supply of goods that are exempt under the GST Act.

vii. Suppliers involved in the supply of goods and services.

WHO CAN AND CANNOT AVAIL OF THE GST COMPOSITION SCHEME?

As a taxpayer, one can opt for the GST composition scheme, provided his annual turnover falls within the specified limits. It is important to note that the GST composition limit includes turnover for all businesses registered under a particular PAN.

In general, small manufacturers, traders, and service providers can avail of the composite scheme.

LIMITS OF GST COMPOSITION SCHEME

The composition scheme limit under GST varies depending on the type of business that one is having.

For manufacturers and traders:

As a newly registered business, your turnover should not exceed Rs.1.5 crore in the current financial year. If you have already registered, your turnover must not exceed Rs.1.5 crore in the previous financial year.

For restaurants not serving alcohol:

The above terms apply here as well.

For service Providers:-

As a newly registered business, your turnover should not exceed Rs.50 Lakhs in the current financial year. If you have already registered, your turnover must not exceed Rs.50 crore in the previous financial year.

Additionally, the scheme limits the Rs.1.5 crore cap to Rs. 75 lakh in the special category states. Suppose your turnover exceeds the specified composition scheme limit in a financial year. You will have to convert to the regular GST payment mechanism to comply with the GST composition scheme rules.

BENEFITS OF THE COMPOSITION SCHEME IN GST

The salient benefits of the GST composition scheme are as follows:-

- a) **Reduced Tax Payments:-** The new tax rate structure reduces liability for taxpayers.
- b) **Lower Compliance Requirements:-** Taxpayers now need to file fewer returns and side-

step the need to provide tax invoices.

- c) **Increased liquidity:** Reduced tax liability via the fixed rate translates to higher levels of liquidity for the business. With more liquidity, you can maintain cash flow better, which will help you sustain operations smoothly.

DRAWBACKS OF OPTING FOR A COMPOSITION SCHEME UNDER GST

While GST composition is advantageous, you should be aware of a few pitfalls to the scheme before registering.

- i. **No input tax credit:-** B2B businesses do not get the credit of input tax paid from the output liability. The buyer of such goods will not get any credit on tax paid, resulting in price distortion and cascading. A buyer registered as a regular taxpayer will not get any credit when buying from a person registered under a composition scheme, resulting in a loss of business. Eventually, such buyers might avoid purchasing from a taxpayer under the scheme.

- ii. **No collection of tax: -** Under the scheme, taxpayers cannot recover composition tax from their buyers, as they cannot raise a tax invoice.
- iii. **Restricted geography/ reach for businesses:-** GST composition restricts businesses geographically, as it does not cover inter-state transactions. They also cannot use the potential of the Internet as a supply of goods via e-commerce portals.

TAX RATES APPLICABLE FOR THE COMPOSITION SCHEME IN GST

Upon registering for GST composition, a fixed tax rate applies to your business turnover. The current rates are as follows:-

- i. **For goods manufacturers and traders:** 1% GST, divided as 0.5% CGST and 0.5% SGST.
- ii. **For restaurants not serving alcohol:** 5% **GST**, divided as 2.5% CGST and 2.5% SGST.

- iii. **For service providers:** 6% GST, divided as 3% CGST and 3% SGST.

The taxes you pay come from your finances as you do not charge any to consumers and include taxes on supplies made and on reverse charge.

DISCLAIMER

The present Article intends to provide brief and general information on the above mentioned subject & in no manner provides exhaustive details on the same. This document shall not be construed as a legal advise & further, shall not form as a base to take any decision without seeking proper legal advise from us. We shall not be responsible for whatsoever sustained by any person relying on this material

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