



GST Composition Scheme

Benefits, Eligibility & Procedure



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What is the Composition Scheme Under GST?

Composition Scheme is a simple and easy scheme under GST for small taxpayers. Small taxpayers can get rid of tedious GST formalities and pay GST at a fixed rate of turnover. This scheme can be opted by any such taxpayer whose turnover for the financial year is less than Rs. 1.5 crore in case of the dealers/manufacturers of goods. Whereas the limit is Rs 50 lakh for the service providers*.

The GST charged is nominal and need to be calculated as a percentage of the turnover covering each quarter. The GST rates are as follows:



Composition Scheme - Applicable GST Rates			
Type of Business	CGST	SGST	Total
Manufacturer and Traders (Goods)	0.5%	0.5%	1.0%
Restaurants not serving alcohol	2.5%	2.5%	5.0%
Other service Providers*	3.0%	3.0%	6.0%

*The 32nd GST Council meeting proposed for the inclusion of Service Providers under the Composition Scheme, with the above-mentioned rates of tax. However, a notification is yet to be issued in this regard.

Fig 1: GST Rates prescribed under the Composition scheme

Conditions for the composition scheme for manufacturers/traders in goods or along with services*:

- No input tax credit (ITC) can be claimed by a dealer opting for Composition Scheme.
- The dealer cannot supply GST exempted goods or via e-commerce operators.
- The taxpayer has to pay tax at normal rates for transactions under the reverse charge mechanism.
- If a taxable person has different segments of businesses (such as textile, electronic accessories, groceries, etc.) under the same PAN, they must register all such businesses under the scheme collectively or opt-out of the scheme.

- The taxpayer has to mention the words 'composition taxable person' on every notice or signboard displayed prominently at their place of business.
- The taxpayer has to mention the words 'composition taxable person' on every bill of supply issued by him.
- Cannot make interstate supplies although can purchase from outside the state.
- Can opt only for the financial year in the beginning in [CMP-02](#) form.

What is the compliance under the new GST returns system?

Composition dealers must compute and pay tax on a quarterly basis in a self-assessed payment challan CMP-08 by the 18th of the month following the quarter. Thereafter, they must file GSTR-4 on an annual basis by 30th April of the year following the financial year.

**Central Tax (Rate) Notification No. 2/2019 dated 7 March 2019*

Benefits of Composition Scheme

The following are the advantages of registering under the Composition Scheme:

- Lesser compliance (returns, maintaining books of record, issuance of invoices).
- Limited tax liability.
- High liquidity as taxes is at a lower rate.

Disadvantages of Composition Scheme?

Some of the disadvantages of registering under GST Composition Scheme:

- A limited territory of business. The dealer is barred from carrying out interstate transactions.
- No ITC available to Composition dealers.
- The taxpayer will not be eligible to supply exempt goods or goods through an e-commerce portal.

Who Is Eligible for This Scheme?

The Composition Scheme is applicable as follows:

Type of supply	The aggregate turnover limit in the previous year in case of North-Eastern states and Himachal Pradesh (Rs)	The aggregate turnover limit in the previous year for the rest of the states (Rs)
Manufacturers/traders/ restaurants not serving alcohol	Up to 75 lakh	Up to Rs 1.5 crore
	Also, supply services to an extent of 10% of turnover or Rs 5 lakh, whichever is higher w.e.f 1 Feb 2019	

Service providers	Up to 50 lakh
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Such taxpayer cannot be supplying ice creams and other edible ice, whether or not containing cocoa, pan masala and tobacco and manufactured tobacco substitutes.

Points to Remember for the Composition Scheme

- **Cannot charge and collect tax from its customers:**
Such taxpayers cannot charge GST in the bill raised on its customers since tax is being deposited at a nominal rate by the dealer.
- The GST payment must be made by a Composition dealer comprises of the following:
 - GST on supplies made.
 - Tax on reverse charge.
 - Tax on purchase from an unregistered dealer.**
- **Composition Scheme taxpayer must issue a bill of supply:**
Unlike any other GST registered taxpayer who issues a tax invoice, the Composition Scheme taxpayer is required to issue only a bill of supply to his customers without the tax amount.
- **Restrictions to opt for the scheme:**
 - ☐ The person opting for the scheme must neither be a casual taxable person nor a non-resident taxable person.
 - ☐ The goods held by him in stock on the appointed date must not be purchased from a place outside his state. The goods should therefore **not** be classified as:
 - Interstate purchase.
 - Imported goods.
 - Stock transfer from branch situated outside the state.
 - Agents or principal situated outside the state.
 - ☐ Where the taxpayers deal with an unregistered person, then the tax must be paid or no stock must be held.
 - ☐ He is not a manufacturer of such goods as may be notified by the government during the preceding financial year.
- **Various forms for compliance by Composition Scheme taxpayer:**

Form	Purpose	Due Date
Form GST CMP-01	To opt into the scheme by provisional GST registration holder (from VAT regime)	Prior to 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	Prior to 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 seven 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 REG-01	Registration for 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

***Only on specified categories of goods and services as well as the notified class of registered persons with effect from 1 February 2019 but is yet to be notified. Hence, not applicable until then.*