

A Study of Usefulness of Composition Scheme of GST

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ABSTRACT

The Good and service Tax, which is effective in India from July 1st 2017, sets to bring along a new regime of business compliance in India. In GST there are a lot of requirements such as regarding to file GST return, mention HSN code which incur extra cost to taxpayer. Large dealer can regulate these needs but small taxpayer can't handle these needs. So, Section 10 of the GST act provides a provision for composition levy. A person, whose aggregate turnover in the preceding financial year does not exceed Rs. 1 crore, is entitled to opt for the composition scheme in GST. But in some states such as Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh the limit of aggregate turnover restricted to 75 lacks. The objective of the present paper is to understand the basic queries regarding opting Composition Scheme for which primary data has been collected from persons who have opted the scheme. The composition scheme of GST is good for small traders, manufacturers and restaurants etc. as it will ease the compliance burden and create more liquidity for the scheme- holders. But the study shows many limitations on the other side. A composition scheme- holder is not eligible to take credit of input tax credit on purchases. Moreover one having stock of the inter-state purchase is not allowed to opt the scheme. The major complaint which is being faced by the scheme-holders is that the GST portal is not working properly. So, the govt. is required the make GST portal to be more effective and interruption free and to remove the other bottlenecks to make the composition scheme more attractive and effective one.

Key Words: GST, Composition Scheme, Stock, Portal

The Good and service Tax, which is effective in India from July 1st 2017, sets to bring along a new regime of business compliance in India. Large organisations have the requisite resources and expertise to address these requirements. On the flip side, many start-ups and Small and Medium Enterprises may struggle to comply with these provisions. To resolve such scenarios, the government has introduced composition scheme under GST, which is merely an extension of the current scheme. When opting for the Composition Scheme under GST, a taxpayer will be required

to file summarised returns on a quarterly basis, instead of three monthly returns as applicable for normal businesses.

In GST there are a lot of requirements such as regarding to file GST return, mention HSN code which incur extra cost to taxpayer. Large dealer can regulate these needs but small taxpayer can't handle these needs. So, Section 10 of the GST act provides a provision for composition levy. A person, whose aggregate turnover in the preceding financial year does not exceed Rs. 1 crore **(threshold limit for composition scheme which was 75 lakhs earlier has been increased to 1 crore as per 22nd GST Council Meeting held on 6th October 2017)**, is entitled to opt for the composition scheme in GST. However government has power to increase this limit subject to approval of GST council. But in some states such as Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh the limit of aggregate turnover is restricted to 75 lacks **(threshold limit for composition scheme for these states which was 50 lakhs earlier has been increased to 75 lakhs as per 22nd GST Council Meeting held on 6th October 2017)**. If a person has multiple registration on same PAN number, the benefit of composition scheme shall be mandatory availed for all business i.e. benefit of composition scheme will be PAN based not business wise. Here the aggregate turnover of any person/business can be calculated as given under.

Aggregate Turnover (On one PAN basis all premises) = Value of all Taxable supplies + Value of exempted supply + Value of export goods or services or both + Value of inter-state Supplies- (Taxes i.e. CGST,SGST,IGST+ Value of inward supplies whether tax paid under reverse charge or not).

Objectives of the Paper:

This research paper has the following objectives:

1. To understand the basic queries regarding opting Composition Scheme under GST in India.
2. To know the problems faced by the respondents while opting the composition scheme.

Research Methodology:

The research design of the present paper is mainly descriptive in nature as the main purpose of the study is to find out the views of the respondents regarding Composition Scheme under GST. While preparing this paper a sample of 50 respondents was taken from Rohtak city of Haryana from September 01 to September 10, 2017 to know about actual responses of people towards acceptance of the scheme. The 40 respondents chosen for study were from business category who have opted this scheme and 10 respondents were from restaurant industry not serving liquor.

Here in the context of preparation of the present paper an attempt has been made to know the views of various respondents regarding the awareness about composition scheme and various problems being faced by respondents at present. Views of the respondents, in this context, have been discussed here under.

Table 1: Awareness about Composition Scheme of GST before opting it

Type of Respondents	Responses (Yes)	Responses (No)	Total
Businessmen Category	11	29	40
Restaurant Owners Category	04	06	10
Total	15	35	50

Table 1 show that only 27.5% of the respondents in business category were aware about the composition scheme of the GST before opting it whereas majority of the scheme-holders in this category i.e. 72.5% were not aware of the scheme before opting it. Similarly 40% of the restaurant owners who opted the composition scheme were aware about it whereas 60% were not aware about the same. The table clearly states that 70% of the respondents as a whole were not aware about the composition scheme before choosing it. The basic reason behind this, as opined by the respondents, was due to the requirement of either to opt for the scheme or to apply for the GSTIN.

Table 2: Problems being faced by holders after choosing the Composition Scheme

Problems being faced by Respondents	Businessmen	Restaurant Owners	Total
a. GST Portal of the scheme is not working properly	18	08	26
b. No efforts from govt. to educate the scheme holders regarding confusions	02	02	04
c. Holder having stock of the inter-state purchase not allowed to opt the scheme	12	--	12
d. Holder who opted the scheme without awareness can't withdraw from scheme	08	--	08
e. Any other	-	--	
Total	40	10	50

Table 2 indicates that though all the respondents have already opted the composition scheme but now they are facing some problems. The table shows that 45% of the respondents in businessmen category complained that the GST portal is not working properly. 30% of the scheme-holders have the concern that a person having stock of inter-state purchase is not allowed to opt for the scheme which, they opined, was a major problem of the composition scheme. The table further shows that the 20% of the respondents in the businessmen category who opted the scheme without the awareness of the scheme are not able to withdraw from the scheme, though the scheme has the option for the same, due to problem in either GST portal or due to lack of knowledge of the scheme. Only 5% of the respondents complained about lack of proper efforts from the govt. to educate the scheme-holders about their confusions. Further the table reveals that in case of restaurant owner category, the major problem being faced by majority of the scheme-holders i.e. 80% was that the GST portal is not working properly whereas only 20% complained about lack of proper efforts from the govt. to educate the scheme-holders about their confusions.

Who can Opt the Composition Scheme of the GST:

As per GST Act 2017, the following persons are eligible to opt the composition scheme

a. Manufacturers:

These are liable to pay Tax 1% of turnover in state or turnover in Union territory. As per Sec 2(72) of the GST Act 2017 "Manufacture" means processing of raw material or input in a manner that results in emergence of a new product having a distinct name, character and use and term "manufacturer" shall be construed accordingly."

But as per sec 10(2) of GST Act Manufacturer of such good as notified by recommendation of council not included in composition levy. List of goods notified by government are:

- Ice cream and other edible ice, whether or not containing coca.
- Pan masala
- All goods, i.e. Tobacco and manufactured tobacco substitutes.

b. Person making supply of goods being food or any other article of human consumption:

These are liable to pay Tax 2.5% of turnover in state or turnover in Union territory. It includes activity of supply food in a restaurant, outdoor caterer, Dhaba, road side rehadis etc. The scheme does not include any premises where alcoholic liquor is served for human consumption.

There is only one service which is covered in composition levy. No, other service provider is included in composition levy. The service provider other than service provider specified in paragraph 6 (b) of schedule- II (i.e. supply of food or any other article for human consumption) can't avail benefit of composition scheme. The person who sells goods such as sanitary item and also provide services to fix them, then a part of turnover

is service provided by him it may minor such 3% but he/she can't opt for composition scheme.

c. Other persons:

These are liable to pay Tax 0.5% of turnover in state or turnover in Union territory. The people who are not covered in above two are covered here. The following conditions should be satisfied before composition levy.

- (i) One should not be casual taxable person i.e. a person who occasionally undertakes the transaction in taxable territory where is no fixed place of business e.g. if a person have fixed establishment in Delhi where total turnover is 3 lack (No need to take registration requirement as it less than 20 lack). But he goes to Rajasthan and sell goods there. Such person termed as casual taxable person even his turnover in Rajasthan 10,000.
- (ii) One should not be Non-resident taxable person i.e. a person who has no fixed establishment in India. Normally undertakes his business through his agent. He has obtained registration even his turnover is Rs. 1.
- (iii) One should not held in stock goods on 1 July that are purchased in the course of interstate trade or imported from outside India or received from branch outside India or from his agent or principal outside India where he has granted registration on provisional basis and he opt for composition levy.
- (iv) If a person opts for scheme and held goods in stock which are purchased from unregistered supplier then he should pay tax under reverse charge basis (as per sec 9(4)).
- (v) If he/she receive goods or services or both from unregistered supplier then he shall pay tax under reverse charge basis (as per sec 9(3) and 9(4)).
- (vi) The scheme holder will mention words "composition taxable person, not eligible to collect tax on supplies" at top of bill of supply issued by him.
- (vii) The scheme holder will mention the word "composition taxable person" on every notice or signboard displayed at his business place or premises.
- (viii) He/she should not make any interstate supplies e.g. Delhi and Gurugram are very close and it is possible that retailers make supply to person located in both Delhi and Gurugram. Such persons are not entitled to avail benefit of composition scheme. However he/she can purchase from interstate dealer after option for composition scheme is exercised.
- (ix) One should not supply through electronic commerce operator who are required to collect tax. i.e. Electronic commerce operator should be digital or electronic facility or platform that may be own, operate or manage by a person and it should be for electronic commerce. e.g. AMAZON.

- (x) He/she should not supply of goods which are not leviable of tax under GST act. e.g. Petroleum crude, high speed diesel, petrol, natural gas aviation turbine fuel, alcoholic liquor for human consumption.

As per GST Act, a person who has opted for composition scheme shall not collect tax from recipient on goods and services supplied by him. He/she can't reflect Tax element and also he can't collect any tax from supplier. Moreover a person who purchases from composite dealer he will not able to claim any Input tax credit on goods purchased by him. Dealer bill should also indicate "composition taxable person, not eligible to collect tax on supplies."

When a person opts from Normal Scheme to Composite Scheme then credit of input tax in Stock lying, capital good on the day with the rate which is immediately preceding the day of exercising the option is subject to reversal but balance in credit ledger should be lapse. In this regard the option availed shall be lapse with effect from the day on which his aggregate turnover during a financial year exceeds the prescribed limit.

The person who switches from composition scheme to Normal scheme credit of tax paid on Input held in stock or capital good availed by the dealer. No input tax credit available to composite dealer on tax paid on input goods and services received from different person. In addition to this a dealer is required to file Form GSTR-4 on quarterly basis through GST portal. The last date of filling the return by a composite dealer will be 18th of the month next to quarter and before this he/she has to pay all dues of taxes to appropriate government. In addition to this he/she will have to file annual return in Form GSTR-9A.

How can one withdraw from the Composition Scheme of the GST:

The following procedure will be followed by a composition scheme holder who wants to withdraw from the scheme.

- a. When proper officer has reason to believe that registered person not eligible to pay tax in section 10 or he ceases any condition mentioned in Section 10 and rules
 - Issue show cause Notice in from GST CMP-05 within 15 days of knowledge.
 - Registered person has to reply in GST CMP-06
 - Officer shall order in GST CMP-07 within 30 days.
- b. When registered person by itself apply for withdrawal either due to ceases to satisfies any condition mentioned in Section 10 and rules (discussed here) or any other reason than he has to
 - Issue Tax invoice for taxable supply made by him
 - File intimation of withdrawal in from GST CMP-04 within 7 days from when he ceases to satisfy condition.
 - Above from shall electronically on GST portal.

In both of cases when order is passed in GST CMP-07, then within 30 days from date of order he has to submit GST ITC-01 contain detail of input, input contained in semi finished goods or contained in finished good held by him on the date on which option is withdrawn or order is passed. So get credit of input of duties held in stock. The following procedure should be satisfied to obtain registration:

- i.) Assessee (wheatear composite dealer or normal dealer registered under previous law (i.e. VAT) and comes in GST as Composite Dealer:
 - Upon enrolment registrants will be granted a provisional registration certificate in Form REG-25.
 - To exercise the opting of Composition Scheme file from GST CMP-01 within 30 days from appointed date or such other date as may be extended by commissioner in this behalf.
 - He has to furnish Details of stock, including the inward supply of goods received from unregistered persons in form GST CMP-03 within 60 days or extended period as may be.
 - Effective date of registration will be appointed date.
- ii.) New Assessee obtaining registration under Composition Scheme:
 - He has to make application in from GST-REG-1.
 - He shall indicate the option of availing benefit of Section 10.
 - Exercising this option considered as he opt for this scheme.
 - Effective date of registration will be date, when he liable to register if he applied within 30 days from when he liable to register otherwise effective date on which registration is granted.
- iii.) Person opts for composition scheme after opting Normal scheme under GST
 - He shall intimation electronically in form GST CMP-02.
 - Such intimation shall be file prior to financial year for which he opts to pay tax under composition scheme.
 - Amount of input tax credit, relating to inputs lying in stock, inputs contained in semi finished and finished goods lying in stock, and capital goods lying in stock should be specify in form GST ITC-3 within 60 days from commencement of relevant financial year for the reversal of tax credit.
 - Effective date of registration will be beginning of financial year.

Conclusion: The composition scheme of GST is good for small traders, manufacturers and restaurants etc. This will not only ease the compliance burden of the scheme- holders from filing total 37 returns in one year to only 5 returns in a year but to reduce the tax liability also. Moreover it will create more liquidity for composition scheme-holders as for normal scheme-holders, most

of their working capital will be blocked as input tax credit. But it has many limitations on the other side. A composition scheme- holder is not eligible to take credit of input tax credit on purchases. Moreover one having stock of the inter-state purchase is not allowed to opt the scheme. The major complaint which is being faced by the scheme-holders is that the GST portal is not working properly. Though a procedure has been laid down in the act to withdraw from the composition scheme but practically many respondents in businessmen category complained that they are not getting successful when they try to withdraw from the scheme. Thus the composition scheme of GST is a marvelous one as it has a lot of benefits for small and medium scale businessmen and restraint owners not serving liquor. The govt. is required the make GST portal to be more effective and interruption free and to remove the other bottlenecks to make the composition scheme more attractive and effective one.

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