

Frequently Asked Questions on Composition Levy

Q 1. What is composition levy under GST?

Ans. The composition levy is an alternative method of levy of tax designed for small taxpayers whose turnover is up to Rs. 75 lakhs (Rs. 50 lakhs in case of few States). The objective of composition scheme is to bring simplicity and to reduce the compliance cost for the small taxpayers. Moreover, it is optional and the eligible person opting to pay tax under this scheme can pay tax at a prescribed percentage of his turnover every quarter, instead of paying tax at normal rate.

Q 2. What is the specified rate of composition levy?

S. No.	Category of Registered person	Rate of Tax
1	Manufacturers, other than manufacturers of such goods as may be notified by the Government (Ice cream, Pan Masala, Tobbacco prodcuts etc.)	2% (1% Central tax plus 1% State tax) of the turnover
2	Restaurant Services	5% (2.5% Central tax plus 2.5% SGST) of the turnover
3	Traders or any other supplier eligible for composition levy	1% (0.5% Central tax plus 0.5% State tax) of the turnover

Q 3. What is the eligibility category for opting for composition levy? Which are the Special Category States in which the turnover limit for Composition Levy for Central tax and State tax purpose shall be Rs. 50 lakhs?

Ans. Composition scheme is a scheme for payment of GST available to small taxpayers whose aggregate turnover in the preceding financial year did not cross Rs. 75 lakhs. In the case of the following States, the limit of turnover is Rs. 50 lakhs:-

- a) Arunachal Pradesh
- b) Assam
- c) Manipur
- d) Meghalaya
- e) Mizoram
- f) Nagaland
- g) Sikkim
- h) Tripura
- i) Himachal Pradesh

Q 4. Who are the persons not eligible for composition scheme?

Ans. Following persons are not allowed to opt for the composition scheme:

- a) a casual taxable person or a non-resident taxable person;

- b) suppliers whose aggregate turnover in the preceding financial year crossed Rs. 75 lakhs;
- c) supplier who has purchased any goods or services from unregistered supplier unless he has paid GST on such goods or services on reverse charge basis;
- d) supplier of services, other than restaurant service;
- e) persons supplying goods which are not taxable under GST law;
- f) persons making any inter-State outward supplies of goods;
- g) suppliers making any supply of goods through an electronic commerce operator who is required to collect tax at source under section 52; and
- h) a manufacturer of following goods:

S. No.	Classification (Tariff item/ Chapter)	Descriptions
1	2105 00 00	Ice cream and other edible ice, whether or not containing cocoa
2	2106 90 20	Pan masala
3	24	Tobacco and manufactured tobacco substitutes

Note: There is no restriction on procuring goods from inter-state suppliers by persons opting for the composition scheme

Q 5. When will a person opting for composition levy pay tax?

Ans. A person opting for composition levy will have to pay tax on quarterly basis before 18th of the month succeeding the quarter during which the supplies were made.

Q 6. A person availing composition scheme during a financial year crosses the turnover of Rs.75 lakhs/50 lakhs during the course of the year i.e. say he crosses the turnover of Rs.75 lakhs/50 lakhs in December? Will he be allowed to pay tax under composition scheme for the remainder of the year i.e. till 31st March?

Ans. No. The option to pay tax under composition scheme lapses from the day on which his aggregate turnover during the financial year exceeds the specified limit (Rs. 75 lakhs / Rs. 50 lakhs). He is required to file an intimation for withdrawal from the scheme in **FORM GST CMP-04** within seven days from the day on which the threshold limit has been crossed.

However, such person shall be allowed to avail the input tax credit in respect of the stock of inputs and inputs contained in semi-finished or finished goods held in stock by him and on capital goods held by him on the date of withdrawal and furnish a statement within 30

days of withdrawal containing the details of such stock held in **FORM GST ITC-01** on the common portal.

Q 7. How will the aggregate turnover be computed for the purpose of composition?

Ans. Aggregate turnover will be computed on the basis of turnover on an all India basis and will include value of all taxable supplies, exempt supplies and exports made by all persons with same PAN, but would exclude inward supplies under reverse charge as well as central, State/Union Territory and Integrated taxes and cess.

Q 8. Can a person who has opted to pay tax under the composition scheme avail Input Tax Credit on his inward supplies?

Ans. No. A taxable person opting to pay tax under the composition scheme is out of the credit chain. He cannot take credit on his input supplies. When he switch over from composition scheme to normal scheme, eligible credit on the date of transition would be allowed (refer Q 6 above).

Q 9. Can a registered person, who purchases goods from a taxable person paying tax under the composition scheme, avail credit of tax paid on purchases made from the composition dealer?

Ans. No as the composition dealer cannot collect tax paid by him on outward supplies from his customers, the registered person making purchases from a taxable person paying tax under the composition scheme cannot avail credit.

Q 10. Can a person paying tax under the composition scheme issue a tax invoice under GST?

Ans. No. He can issue a bill of supply in lieu of tax invoice.

Q 11. Are monthly returns required to be filed by the person opting to pay tax under the composition scheme?

*Ans. No. Such persons need to electronically file quarterly returns in **Form GSTR-4** on the GSTN common portal by the 18th of the month succeeding the quarter. For example return in respect of supplies made during July, 2017 to September, 2017 is required to be filed by 18th October, 2017.*

Q 12. What are the basic information that need to be furnished in GSTR-4?

Ans. It would contain details of the turnover in the State or Union territory, inward supplies of goods or services or both and tax payable.

Q 13. A person opting to pay tax under the composition scheme receives inputs/input services from an unregistered person. Will the composition taxpayer have to pay GST under reverse charge? If yes, in what manner?

*Ans. Yes. Tax will have to be paid on such supplies by the composition taxpayer under reverse charge mechanism. The tax can be paid by the 18th day of the month succeeding the quarter in which such supplies were received. The information relating to such supplies should be shown by the composition taxpayer in Table 4 of return in **FORM GSTR -4**.*

Q 14. What is the form in which an intimation for payment of tax under composition scheme needs to be made by the taxable person?

*Ans. The intimation is to be filed electronically in **FORM GST CMP- 01** or **FORM GST CMP- 02**.*

Q 15. A person registered under existing law (Central Excise/Service Tax/VAT) and who has been granted registration on a provisional basis wants to opt for composition scheme. How and when can he do that?

*Ans. Such a person has to electronically file a duly signed/verified intimation in **FORM GST CMP-01**, on the common portal, **prior to 22nd June, 2017** or such further period as may be allowed by the Commissioner.*

Q 16. What are the other compliances which a provisionally registered person opting to pay tax under the composition levy need to make?

*Ans. Such person is required to furnish the details of stock, including the inward supply of goods received from unregistered persons, held by him on the day preceding the date from which he opts to pay tax under the composition scheme, electronically, in **FORM GST CMP-03**, on the common portal, either directly or through a Facilitation Centre notified by the Commissioner, within a period of sixty days from the date on which the option for composition levy is exercised or within such further period as may be extended by the Commissioner in this behalf.*

Q 17. Can a person making application for fresh registration under GST opt for composition levy at the time of making application for registration?

*Ans. Yes. Such persons can give the option to pay tax under the composition scheme in **Part B of FORM GST REG-01**. This will be considered as an intimation to pay tax under the composition scheme.*

Q 18. Can the option to pay tax under composition levy be exercised at any time of the year?

*Ans. No. The option is required to be given electronically in **FORM GST CMP-02**, prior to the commencement of the relevant financial year.*

Q 19. Can a person who has already obtained registration, opt for payment under composition levy? If so, how?

Ans. Yes. Such persons need to give intimation electronically in Form GST CMP-02 but from beginning of the financial year only.

Q 20. What are the compliances from ITC reversal point of view that need to be made by a person opting for composition levy?

Ans. The registered person opting to pay tax under composition scheme is required to pay an amount equal to the input tax credit in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the day immediately preceding the date of exercise of option. The ITC on inputs shall be calculated proportionately on the basis of corresponding invoices on which credit had been availed by the registered taxable person on such inputs.

In respect of capital goods held in stock on the day immediately preceding the date of exercise of option, the input tax credit involved in the remaining useful life in months shall be computed on pro-rata basis, taking the useful life as 5 years. Assume capital goods have been in use for 4 years, 6 months and 15 days. The useful remaining life in months will be 5 months ignoring the part of the month. If ITC on such capital goods is taken as C, ITC attributable to the remaining useful life will be C multiplied by 5/60. This would be the amount payable on capital goods.

The ITC amount shall be determined separately for integrated tax, central tax and state tax/Union territory tax. The payment can be made by debiting electronic credit ledger, if there is sufficient balance in the said ledger, or by debiting electronic cash ledger. The balance, if any in the electronic credit ledger would lapse.

Such persons also have to furnish the statement in FORM GST ITC-03 which is a declaration for intimation of ITC reversal/payment of tax on inputs held in stock, inputs contained in semi-finished and finished goods held in stock and capital goods under Section 18(4) of the CGST Act, 2017 within a period of sixty days from the commencement of the relevant financial year.

Q 21. In case a person has registration in multiple states? Can he opt for payment of tax under composition levy only in one state and not in other state?

Ans. The option to pay tax under composition scheme will have to be exercised for all States.

Q 22. What is the effective date of composition levy?

Ans. There can be three situations:

<i>Situation</i>	<i>Effective date of composition levy</i>
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<i>Persons who have been granted provisional registration and who opt for composition levy (Intimation under Rule 3(1))</i>	<i>The appointed date is 22nd June, 2017</i>
<i>Persons opting for composition levy at the time of making application for new registration in the same registration application itself (Intimation under Rule 3(2))</i>	<i>Effective date of registration; Intimation shall be considered only after the grant of registration and his option to pay tax under section 10 shall be effective from the effective date of registration</i>
<i>Persons opting for composition after obtaining registration (Intimation under Rule 3(3))</i>	<i>The beginning of the financial year</i>

Q 23. What are the other conditions and restrictions subject to which a person is allowed to avail of composition scheme?

Ans. The person exercising the option to pay tax under section 10 shall comply with the following other conditions (in addition to what is stated in answer to Q 4 above), namely: -

a) he shall mention the words "composition taxable person, not eligible to collect tax on supplies" at the top of the bill of supply issued by him; and

b) he shall mention the words "composition taxable person" on every notice or signboard displayed at a prominent place at his principal place of business and at every additional place or places of business.

Q 24. What is the validity of composition levy?

Ans. The option to pay tax under composition levy would remain valid so long as conditions mentioned in section 10 of the CGST Act, 2017 and Rule 3 to 5 of the CGST Rules, 2017 remain satisfied.

Q 25. Can a person paying tax under composition levy, withdraw voluntarily from the scheme? If so, how?

*Ans. Yes. The registered person who intends to withdraw from the composition scheme can file a duly signed or verified application in **FORM GST CMP-04**.*

*Every person who has filed an application for withdrawal from the composition scheme, may electronically furnish, a statement in **FORM GST ITC-01** containing details of the stock of inputs and inputs contained in semi-finished or finished goods held in stock by him on the date of withdrawal, within a period of thirty days of withdrawal.*

Q 26. What action can be taken by the proper officer for contravention of any provisions of composition levy and how?

*Ans. Where any contravention is observed by the proper officer wherein the registered person was not eligible to pay tax under the composition scheme or has contravened the provisions of the CGST Act, 2017 or provisions of Chapter II of the CGST Rules, 2017, he may issue a notice to such person in **FORM GST CMP-05** to show cause within fifteen days of the receipt of such notice as to why the option to pay tax under the composition scheme shall not be denied.*

*Upon receipt of the reply to the said show cause notice in **FORM GST CMP-06**, the proper officer shall issue an order in **FORM GST CMP-07** within a period of thirty days of the receipt of such reply, either accepting the reply, or denying the option to pay tax under the composition scheme from the date of the option or from the date of the event concerning such contravention, as the case may be.*

Q 27. In case the option to pay tax under composition levy is denied by the proper officer, can the person avail ITC on stock after denial?

*Ans. Yes. ITC can be availed by filing, a statement in **FORM GST ITC-01** (containing details of the stock of inputs and inputs contained in semi-finished or finished goods held in stock) by him on the date on which the option is denied as per order in **FORM GST CMP-07**, within a period of thirty days from the order.*

Q 28. Will withdrawal intimation in any one place be applicable to all places of business?

Ans. Yes. Any intimation or application for withdrawal in respect of any place of business in any State or Union territory, shall be deemed to be an intimation in respect of all other places of business registered on the same Permanent Account Number.

Q 30. Can supplier of Services opt for composition levy?

Ans. No, the only exception being supplier of restaurant services.

Q 31. What are the penal consequences if a person opts for the composition scheme in violation of the conditions?

Ans. If a taxable person has paid tax under the composition scheme though he was not eligible for the scheme then the person would be liable to penalty and the provisions of section 73 or 74 shall be applicable for determination of tax and penalty.

Q 32. Can a person paying tax under composition scheme make supplies of goods to SEZ?

Ans. No. Supplies to SEZ from domestic tariff area will be treated as inter-State supply. A person paying tax under composition scheme cannot make inter-State outward supply of goods. Thus, for making supplies to an SEZ unit, a person needs to take registration as a regular taxpayer. The supplies to SEZ will be zero rated and the supplier will be entitled to

make supplies without payment of tax or if he pays tax, he will be entitled to refund of tax so paid.

Q 33. A registered person has excess ITC of Rs 10, 000/- in his last VAT return for the period immediately preceding the appointed day. Under GST he opts for composition scheme. Can he carry forward the aforesaid excess ITC to GST?

Ans. The registered person will not be able to carry forward the excess ITC of VAT to GST if he opts for composition scheme.
