

SMALL DEALERS AND COMPOSITION SCHEME

9.1 PRINCIPLES LAID DOWN IN THE WHITE PAPER

The relevant provisions provided in the White Paper in relation to composition scheme read as under:

"Small dealers with annual gross turnover not exceeding Rs.50 lakhs who are otherwise liable to pay VAT, shall however have the option for a composition scheme with payment of tax at a small percentage of gross turnover. The dealers opting for this composition scheme will not be entitled to input tax credit."

9.2 THRESHOLD EXEMPTION LIMIT



The White Paper, in order to provide relief to the small dealers, specifies that registration for VAT will not be compulsory for dealers below a threshold (Rs.5 lakhs) turnover, and there will be a provision of an optional and simple composite scheme of taxation of a small percentage of gross turnover. However, the Empowered Committee of State Finance Ministers subsequently allowed the States to increase the threshold limit for the small dealers to Rs.10 lakhs with the condition that the concerned State would bear the revenue loss on account of increase in the limit beyond Rs.5 lakhs.

9.3 STATE LAWS TO PROVIDE FOR COMPOSITION SCHEME

The VAT Act is so designed that high value taxpayers should not be spared and the small dealers should be free from hassles of compliance procedures. The States have to provide composition scheme for small dealers i.e. the dealer whose total turnover exceeds Rs.5 lakhs (now Rs.10 lakhs as per the decision of the Empowered Committee of State Finance Ministers) but does not exceed Rs.50 lakhs. Such a dealer would have an option

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to pay a composite amount of tax based on its annual gross turnover at the applicable rate subject to such conditions as may be prescribed. However, in such cases a dealer shall not be entitled to input tax credit on inputs and shall not be authorized to issue vatiable invoices.

The Empowered Committee has permitted the States to reduce the rate of composition tax to as low as 0.25 %. The composition tax at the rate decided by the State Governments can now be levied on the taxable turnover instead of gross annual turnover.

Besides this, the State Governments may also provide for different types of composition schemes to be notified for different classes of retailers.

9.4 FEATURES OF COMPOSITION SCHEME

The decision to join composition scheme will be an individual decision. This decision will depend on the fact as to how VAT affects the dealer's business. The advantage of this scheme is that it saves a lot of labour and effort in keeping records. It also simplifies calculation of tax liability of a dealer. Such schemes generally have the following features:

- (i) a very small tax will be payable;
- (ii) there will be a simple return form to cover longer return period.

The major disadvantage of this scheme is the ineligibility of the dealer to avail input tax credit and issue tax invoices in order to pass on tax credit. Hence, the dealers desirous of availing input tax credit on their purchases may not prefer to buy from composition dealers.

9.5 ELIGIBILITY FOR THE COMPOSITION SCHEME

Every registered dealer who is liable to pay tax under the respective State VAT Acts and whose turnover does not exceed Rs.50 lakhs in the last financial year is generally entitled to avail this scheme. However, the following are not eligible for the composition scheme:

- (i) a manufacturer or a dealer who sells goods in the course of inter-state trade or commerce; or
- (ii) a dealer who sells goods in the course of import into or export out of the territory of India.

- (iii) a dealer transferring goods outside the State otherwise than by way of sale or for execution of works contract.

9.6 EXERCISING OF OPTION

It is generally optional for a dealer to opt for this composition scheme. A dealer who intends to avail such composition scheme shall exercise the option in writing for a year or a part of the year in which he gets himself registered. For this the dealer has to intimate to the Commissioner.

If a dealer avails this scheme, he need not maintain any statutory records as prescribed under the Act. Only the records for purchase, sales, inventory should be maintained. However, if a dealer does not avail the scheme, he has to maintain the prescribed statutory records as per the respective State VAT Acts.

The dealer should not have any stock of goods which were brought from outside the State on the day he exercises his option to pay tax by way of composition and shall not use any goods brought from outside the State after such date. The dealer should also not claim input tax credit on the inventory available on the date on which he opts for composition scheme.



9.7 VAT CHAIN UNDER COMPOSITION SCHEME

9.7.1 Loss to the seller

If the composition scheme is availed by a dealer then such dealer cannot avail input tax credit in respect of input tax paid. Hence the dealer will be losing the input tax credit on purchases made by him. He will not be able to pass on the benefit of input tax credit, which will add to the cost of the goods.

9.7.2 Loss to the purchaser

The purchaser shall not get any tax credit for the purchases made by him from the dealer operating under the composition scheme. Therefore, as soon as a dealer opts for the composition scheme, the VAT chain will be broken, and the benefit of tax paid earlier will not be passed on to the subsequent buyers.

Self-examination questions

1. What do you understand by a composition scheme under VAT laws?

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2. What is the eligible turnover to avail the benefit of this scheme?
3. What are the special features of this scheme?
4. Who is not entitled to the benefits of the composition scheme?
5. How does the composite scheme affect the VAT chain?

