



Composition Levy

Revised Draft GST LAW

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Composition Levy - Why

Indian Business Canvas – Unorganized Sector – Small / Not So Educated Entrepreneurs

(Fundamental Right to do business as guaranteed under the Constitution of India (Article 14-19))

Tax Payer Point of View - Legacy of Cash Transactions – Not capable of keeping elaborate records – Easy Compliance

Tax Collector Point of View – Cost of collection / Administration, Expanding Tax Base

Solution – Composition Scheme, the registered person has the option to pay tax at a specified % of the turnover, without entering the credit chain (applicable only for persons with turnover up to a certain threshold limit)

Composition Levy – Present Regime

- ✓ No provisions for composition scheme in **Excise Duty Law**
- ✓ No composition scheme in **Service Tax Law** at present i.e. after negative list (Before 01.07.2012 – Optional Scheme for Works Contract Service – Work Contract (Composition Scheme for Payment of Service Tax) Rules, 2007 Notification 32/2007 w.e.f. 01-06-2007)
- ✓ **Sales Tax** - provisions are present in VAT Laws of major states
 - State Subject – Vary from state to state
 - Turnover limit and the tax rate (1% to 4%) – Not even in some state
 - Typical Business – Small Retailers, Restaurants, Hotels, Caterers, Bakery, Canteens, Clubs
 - Existing Scheme – Main Restrictions
 - Can't collect tax from customers – Continued in GST
 - Can't claim input tax deduction on purchases – Continued in GST
 - Can't do interstate procurement of goods – Relaxed in GST

Composition Levy – Section 9

- ✓ **Optional Scheme for registered taxable person**
- ✓ **Permission** from the proper officer of the **Central** or **State** Government
- ✓ Pay an **amount in lieu of tax**; minimum rate to be;
2.5% of the turnover in case of manufacturers;
1% of the turnover in other cases
of the **turnover in a State** during the year
- ✓ **No tax to be collected (to be borne by the person out of the sales proceeds)**
- ✓ **No input Tax Credit available**

Applicability

- ❖ Applicable to a registered Taxable Person
 - Eligible even if registered voluntary
- ❖ Having Aggregate Turnover < Rs. 50 Lacs (Across all Business Verticals and across the country for each PAN number)
 - Aggregate Turnover = Value of all supplies (taxable + non-taxable + exempt + exports) – Value of (RCM Supplies + Inward Supplies) – taxes under GST
RCM supplies – Value of supplies on which tax is levied on reverse charge basis
- ❖ Needs to make an application (Getting a permission)
 - Even in Composition under the Current Vat Regime, advisable to make application
- ❖ Would need to pay taxes at usual rates on RCM, if applicable
 - Reverse Charge Mechanism would apply even in such persons

Restrictions/Limitations

- ❑ **No Composition Option in the following specific cases**
 - ✓ **Services Supplied**
 - Any / all services (includes goods treated as supply of services by Schedule II)
 - ✓ **Goods Supplied**
 - Non Taxable Goods
 - Inter-state outward supplies
 - Through e-commerce operators(Section 56)
 - Notified goods manufactured by the supplier
- ❑ All registered taxable persons, having the same PAN as held by the said taxable person, has to opt to pay amount in lie of tax under the scheme
- ❑ If permission granted to a registered taxable person stands withdrawn from the day on which his aggregate turnover during a financial year exceeds 50 lacs

Easy of doing business

- ❖ Quarterly Returns(GSTR-4) – within 18 days after end of each quarter – Section 34(2)
 - As against 3 to 4 returns monthly
- ❖ Lower rate of Tax
 - Specified at not less than 1% (2.5% in case of manufacturer)- Expected to be in range of 1% to 3%
- ❖ In place of a Tax Invoice, the document required is a Bill of Supply – Section 28(3)(b)
 - Convenient since details required are not as much

Penal Provisions

- In case it is found that the scheme was ineligible, the differential Tax along with Penalty equivalent to the Tax – Adequate care needs to be taken.

Switching to/Sec 18(7)

Eligible credit under earlier law carried forward in the return

Amount equivalent to the credit of input tax in respect of input held in stock or input contained in semi-finished goods or finished goods held in stock or on capital goods reduced by such % points as prescribed as on appointed day

Such amount shall be payable by debiting the electronic credit ledger or cash ledger

Balance in electronic credit ledger shall lapse

Section 172 (Switching from....)/Sec 18(3)

Person eligible for input tax credit

- A registered taxable person who was paying tax under composition scheme

Credit available on

- Inputs held in stock and inputs contained in semi-finished goods or finished goods held in stock as on appointed day
 - ✓ Above benefit not available for input services
- Such credit can be taken in the electronic credit ledger
- Section 18(3) – on capital goods

Conditions

- Person not paying taxes under composition scheme under GST law
- Goods must be used for taxable supply
- Otherwise eligible to take the credit under earlier law and under GST law
- Such person should be in possession of invoice/ other prescribed document
- Invoices/ other prescribed document was not issued earlier than 12 months preceding appointed day
- To reduced by such % points as may be prescribed

Some Observations

- Draft GSTR-4 contains column for Exports – Exports are considered Interstate Transaction and Composition Levy is not applicable where Interstate Transaction is held.
- Amount in lieu of tax is % of turnover in state – Turnover in State defined by Sec 2(107) include exempt supply also – aggregate or turnover before registration say 10 lac/20 lac turnover case
- Scheme applicable in case of supply of any service – Small Scale Service Provider must also be covered
- Whether one time permission/yearly permission is required for registered taxable person to pay composition levy subject to satisfaction of conditions and restrictions prescribed including monetary limits
- Recommendation – Allow credit to the received/buyer – to ensure composition dealer not disadvantaged and reduce cascading
- More clarity / Awareness campaign – Composition Scheme very crucial in our economy



Thanks & Regards

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A presentation on Composition Levy
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Any suggestions are welcome.

In case of any clarifications, please can contact at

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