

Small Dealers and Composition Scheme

Question 1

Who are not eligible for composition scheme under the VAT regime? Discuss briefly.

Answer

As per the White Paper, small dealers having gross turnover exceeding ₹ 5 lakhs but less than ₹ 50 lakhs have the option of composition scheme. The following persons 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 territory of India; or
- (iii) a dealer transferring goods outside the State otherwise than by way of sale or for execution of works contract; or
- (iv) a manufacturer/dealer who makes inter-State purchases; or
- (v) a dealer/manufacturer who issues vatable invoices.

Question 2

Explain in brief the disadvantages of composition scheme available for small dealers under VAT system.

Answer

As per the White Paper, small dealers with annual gross turnover not exceeding ₹ 50 lakh who are otherwise liable to pay VAT, have the option for a composition scheme with payment of tax at small percentage of their gross turnover. The dealers opting for this scheme will not be entitled to input tax credit. The VAT chain gets broken under the composition scheme.

Following are the disadvantages of this scheme:

1. The purchaser does not get any tax credit for the purchases made by him from the dealer operating under the composition scheme. Hence, the dealers who desire to avail input tax credit on their purchases may not prefer to buy from composition dealers.
2. The dealer cannot avail input tax credit in respect of input tax paid by him and will not be able to pass on the benefit of input tax credit, which will add to the cost of goods.

Exercise

1. Briefly explain the meaning of a composition scheme under VAT laws ?
2. How does the composition scheme affect the VAT chain ?