

Category of Registered Person: Composition Taxable Person

1. Relevant Legal Provisions:

- **Section 2 of the CGST Act, 2017: Relevant Definitions**
 - **Aggregate Turnover:** Section 2(6) of CGST Act, 2017;
 - **Turnover in state or turnover in UT:** Section 2 (112) of CGST Act, 2017
 - **Reverse Charge:** Section 2 (98) of the CGST Act, 2017
 - **Exempt Supply :** Section 2 (47) of the CGST Act, 2017
 - **Non-taxable supply:** Section 2 (78) of the CGST Act, 2017.
- Section 10 of the CGST Act, 2017 - Composition Levy
- Section 39 (2) of CGST Act, 2017- Furnishing of Return by Taxable Person under Composition levy.
- CGST Rules, 2017: Rules 3 to 7 [notified vide notification No. 3/2017-Central Tax, dated 19.6.2017 (effective 22.6.2017)]
- Notification No. 8/2017-Central Tax, dated 27.6.2017 [It enhances aggregate turnover limit for availing composition Scheme from Rs. 50 lakhs to Rs. 75 lakhs except for few notified states; and prohibits manufacturer of icecream, pan masala and tobacco & manufactured tobacco substituted from availing composition scheme].

[Also refer to the corresponding (identical) provisions in the State/UT GST Act of the State/UT in which the taxable person is registered]

2. Applicable Rates of Tax: As per Rule 7 of CGST Rules, 2017 read with Section 10(1) of the CGST Act, 2017, rates fixed for composition levy (to be paid as CGST) for different classes of persons taxable person registered in composition levy scheme are as follows:

- Manufacturer = 1% of turnover (in a state/UT)
- Supplier of food/drinks = 2.5% of turnover (in a state/UT)
- Other suppliers (i.e. trader) = 0.5% of turnover (in a state/UT)

[Note:

- There will be equal amount of SGST/UTGST tax payable under respective SGST/UTGST Act of the State /UT in which taxable person is registered. Thus, total tax payable will be @ double of the aforesaid rates. In other words, the overall rate of tax payable will be 2%, 5%, and 1% for manufacturer, supply of food/drink and other supplier respectively].
- The composition taxable person will be required to pay CGST and SGST/UTGST as the rate prescribed as percentage of turnover in a State/UT as prescribed under respective CGST/SGST/UTGST Act, 2017.
- If a composition taxable person has taxable (not being inter-state supplies) supplies in more than one state or UT, then tax liability has to be discharged by him in each State/UT (separate state-wise/UT-wise Registration is required) in which he is making supplies.

3. Other tax liability to be discharged:

- Any supply of goods/services on which tax is to be paid on reverse charge basis by the recipient (Ref: Section 9(3) of the CGST Act, 2017 read with Rule 5(d) of the CGST Rules, 2017)
- Any supply of goods/services received from non-registered supplier (Ref: Section 9(4) of the CGST Act, 2017 read with Rule 5(d) of the CGST Rules, 2017)

4. Eligibility Condition:

Aggregate turnover >Rs. 10 lakhs*/ 20 lakhs, but ≤ Rs. 75 lakhs** [being turnover of all establishments in one

or more states/UT taken together].

Note:

* means that the limit of Rs. 10 lakhs has been prescribed for the taxable person registered in the state of Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura, Sikkim, Uttarakhand, and Himachal Pradesh.

** indicate that the limit of Rs. 75 lakhs has been fixed vide notification No. 8/2017- Central Tax, dated 27.6.2017. However, for the states of Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura, Sikkim and Himachal Pradesh, the limit is restricted to Rs. 50 lakhs.

4.1 Aggregate Turnover: total value of (Taxable supplies + exempt supplies + export of goods and services + inter-state supplies) in a Financial Year. Since Composition Taxable person cannot make inter-state supply, value of inter-state supply has to be Zero in case of such Taxable person. Further, for determination of aggregate turnover, the tax paid under GST law is not to be included.

4.2 Exempt supplies means Nil rated supplies or fully exempted supplies or non-taxable supplies.

5. Other Key Conditions and restrictions for Composition Levy:

- The taxable person should neither be a casual taxable person nor a non-resident taxable person; (Ref: Rule 5(1)(a) of the CGST Rules, 2017)
- If migrating from existing scheme, the goods held in stock by him on the appointed day should not have been purchased in the course of inter-State trade/ commerce or imported from a place outside India or received from his branch situated outside the State or from his agent or principal outside the State. (Ref: Rule 5(1)(b) of the CGST Rules, 2017)
- The goods held in stock by him should not have been purchased from an unregistered person and where purchased, he pays the tax under reverse charge. (Ref: Rule 5(1)(c) of the CGST Rules, 2017)
- 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. (Ref: Rule 5(1)(g) of the CGST Rules, 2017)
- He is not entitled to any Input tax credit (Ref: Section 10(4) of the CGST Act, 2017)
- He cannot collect any tax from the recipient on supplies made by him (Ref: Section 10(4) of the CGST Act, 2017)

6. Non-eligibility for Composition Scheme (Ref: Section 10 of CGST Act, 2017):

Any taxable person is not eligible for composition levy if he is,-

- engaged in supplies of services other than supply of goods, being food or any other article of human consumption or any drink (other than alcoholic liquor) { Ref: Clause (b) of Paragraph 6 of Schedule II of CGST Act, 2017 read with Section 10(2)(a) of the CGST Act, 2017};
- making supply of goods not leviable to GST (Ref: Section 10(2)(b) of the CGST Act, 2017);
- making inter-state supplies of goods (Ref: Section 10(2)(c) of the CGST Act, 2017);
- making supplies through electronic commerce operator (Ref: Section 10(2)(d) of the CGST Act, 2017).
- being manufacturer of any notified goods (as may be notified by Government by issuing notification) (Ref: Section 10(2)(e) of the CGST Act, 2017)
- Videnotification No. 8/2017-Central Tax, dated 27.6.2017, the Central Government has notified manufacturer of ice-cream, pan masala and tobacco & manufactured tobacco substitute from availing composition levy scheme].

7. Filing of Return:

- Return to be filed on Quarterly basis in Format GSTR-4 (Ref: Section 39 (2) of CGST Act, 2017 and Rule 4 of

GST Return Rules).

- Return to be filed by 18th day after the end of each quarter [by 18th April, 18th July, 18th Oct., and 18th January] (Ref: Section 39 (2) of CGST Act, 2017).
- Annual Return to be filed in Format GSTR-9A (Ref: Section 44(1) of the CGST Act, 2017 and Rule 21 of GST Return Rules)
- Fee to be paid in case of late filing of Quarter Return @one hundred rupees for every day subject to maximum amount of Rs. 5,000/- (Ref: Section 47 (1) of the CGST Act, 2017).
- Fees to be paid in case of late filing of annual return @ one hundred rupees for every day subject to maximum amount calculated at 0.25% of his turnover in a State/UT(Ref: Section 47 (2) of the CGST Act, 2017).

8. Issue of Bill of Supply:

- Bill of supply to be issued instead of tax invoice(Ref: section 31(3)(c) of the CGST Act, 2017 read with Rule 4 of Invoice Rules).
- Bill of supply to carry words, namely, “**composition taxable person, not eligible to collect tax on supplies**” on the top. (Ref: Rule 5 (f) of CGSTRules, 2017).

9. Payment of Tax

- Tax payable for each quarter to be paid by 18th day from the end of quarter (Ref: Section 39(7) of the CGST Act,2017).
- Self-assessed tax can be paid after due date (late payment allowed upto 30 days) on payment of interest.
- Late payment of self-assessed tax by more than 30 days will result in imposition of penalty of 10% of tax amount (Ref: Section 73(11) of the CGST Act,2017).
- Interest to be paid in case of late payment of self-assessed tax or short payment of tax. (Ref: Section 50 of the CGST Act,2017).
- Rate of interest to be notified by the Government (Ref: Section 50 of the CGST Act,2017).
- Details of outward supplies and inward supplies mandated under Section 37 and 38 of the CGST Act, 2017 are required to be filed by Composition taxable person.

10. Exit from Composition Scheme:

- Taxable person availing composition scheme can anytime exit out of this scheme and opt for normal tax scheme with benefit of input tax credit subject to following the procedure prescribed in this regard (Ref: Rule 6(3) of the CGST rules, 2017).
- Not furnishing returns for three consecutive tax periods may result in cancellation of registration by proper officer(Ref: Section 29 (2) (b) of CGST Act, 2017).

11. Time of Exercising of option for Availing Composition Scheme(Ref: Rule 3 of the CGST Rules, 2017)

- Option to avail scheme prior to appointed day or within 30 days from the appointed day
or
- At the time of first registration.
or
- Prior to the beginning of financial year

12. Comparison of Composition GST levy vs. Normal GST levy at a Glance

Subject area	Composition scheme	Normal scheme
Eligibility for Input tax credit	Not eligible	Eligible
Filing of return	Quarterly	Monthly
Collection of taxes from buyers	Not allowed to collect tax paid or to be paid from buyers.	Allowed to collect tax paid or to be paid from buyers.

Input tax credit by recipient of Supply	Not allowed	Allowed
Compliance Burden	5 returns to be filed in a year. [4 quarterly returns + one annual return].	13 returns to be filed in a year. [12 monthly returns under Section 39* + one annual return (under Section 44*)]. *denotes CGST Act, 2017].
Inter-state supplies	Not allowed	Allowed
Supply of services	Not allowed except supply of food /drinks (other than alcoholic drinks)i.e. only restaurant, caterer service allowed.	No such restriction
Rate of GST payable	Prescribed % age of turnover as CGST and UTGST/SGST.	As per rates of GST notified- CGST and SGST/UTGST in case of intra state supplies or IGST in case of inter-state supplies.
Document to be issued	Bill of supply	Tax Invoice

13. Other important Points:

- Government is empowered to increase Rs. 50 lakhs limit to Rs. 1 crores on the recommendation of GST Council(Ref: *Proviso to Section 10 (1) of CGST Act, 2017*). *Vide notification No. 8/2017-Central Tax, dated 27.6.2017, the limit of Rs. 50 lakhs has been raised to Rs. 75 lakhs for all states except for taxable person in the north eastern states and Himachal Pradesh.*
- Government is empowered to notified goods, the manufacturer of which shall not be eligible for composition levy scheme(Ref: *Proviso to Section 10 (2)(e) of CGST Act, 2017*).
- In case of establishment being in more than one State/UT, all such establishments are required to avail composition scheme or to be under normal taxpaying scheme(Ref: *Proviso to Section 10 (2) of CGST Act, 2017*).
- On “**aggregate turnover**” exceeding Rs. 75 lakh/ Rs. 50 lakhs (in case of north-east states and Himachal Pradesh) at any day in Financial Year, the taxpayer becomes ineligible for composition levy scheme on such day and on that day onwards, the taxable person is required to pay taxes under normal GST regime(Ref: *Section 10 (3) of CGST Act, 2017 read with notification No. 8/2017-Central Tax, dated 27.6.2017*).

14. Procedure for Opting for Composition Scheme

- Procedure for opting for composition scheme provided in rule 3 and rule 4 of the CGST Rules, 2017.
- The assesses can be divided into following 3 categories:
 - Person registered under existing laws exercising the option with effect from appointed date.
 - Person taking new registration by filing Form GST REG-1.
 - Registered person opting for composition at the beginning of financial year.

(A). Taxable Person registered (under existing law) exercising Option with effect from Appointed Date:(Ref:Rule 3(1) of CGST Rules, 2017).

- As per rule 3(1) of the Composition Rules, the person who has been granted registration on provisional basis and who opts to pay tax under section 10 shall electronically file intimation in form GST CMP-01 on common portal prior to the appointed day or within 30 days.

(B). Newly Registered Person (not registered under Existing law) exercising option at the time of obtaining registration(Ref:Rule 3(2) of CGST Rules, 2017).

- Any person who is not registered under the existing law, but intends to register either from appointed date or subsequent to that will have to make application in form GST-REG-1. He shall

indicate the option of availing benefit of section 10 of the CGST Act, 2017. Such exercising of option in form GST REG-1 shall be considered as intimation to pay tax under the said section as provided in rule 3(2) of GST Composition Rules.

(C). Registered Person opting u/s 10 after obtaining registration (Ref: Rule 3(3) of CGST Rules, 2017).

- Any other registered person who wants to opt for payment of tax under section 10 shall electronically file intimation in form GST CMP-02 duly signed in common portal prior to commencement of the financial year for which the option to pay tax under section is exercised.

[The term “existing law” has been defined under Section 2(48) of the CGST Act, 2017]

15. Text of Legal Provisions

15.1: Section 2 of the CGST Act, 2017: Relevant Definitions

15.1.1: Section 2(6) of CGST Act, 2017: Definition of Term “Aggregate Turnover”

Section 2 (6): “**aggregate turnover**” means the aggregate value of all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis), exempt supplies, exports of goods or services or both and inter-State supplies of persons having the same Permanent Account Number, to be computed on all India basis but excludes central tax, State tax, Union territory tax, integrated tax and cess;

15.1.2: Section 2 (112) of CGST Act, 2017: Definition of Term “ Turnover in state or turnover in UT”

Section 2 (112): “**turnover in State**” or “**turnover in Union territory**” means the aggregate value of all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis) and exempt supplies made within a State or Union territory by a taxable person, exports of goods or services or both and inter-State supplies of goods or services or both made from the State or Union territory by the said taxable person but excludes central tax, State tax, Union territory tax, integrated tax and cess;

15.1.3: Section 2 (98) of the CGST Act, 2017: Definition of Term “ Reverse Charge”

Section 2 (98): “reverse charge” means the liability to pay tax by the recipient of supply of goods or services or both instead of the supplier of such goods or services or both under sub-section (3) or sub-section (4) of section 9, or under sub-section (3) or subsection (4) of section 5 of the Integrated Goods and Services Tax Act;

15.1.4: Section 2 (47) of the CGST Act, 2017: Definition of Term “Exempt Supply”

Section 2(47): “exempt supply” means supply of any goods or services or both which attracts *nil* rate of tax or which may be wholly exempt from tax under section 11, or under section 6 of the Integrated Goods and Services Tax Act, and includes non-taxable supply;

15.1.5: Section 2 (78) of the CGST Act, 2017: Definition of Term “ Non-taxable supply”

Section 2 (78): “non-taxable supply” means a supply of goods or services or both which is not leviable to tax under this Act or under the Integrated Goods and Services Tax Act;

15.2: Section 10 of the CGST Act, 2017: Composition Levy

Section 10.(1) Notwithstanding anything to the contrary contained in this Act but subject to the provisions of sub-sections (3) and (4) of section 9, a registered person, whose aggregate turnover in the preceding financial year did not exceed fifty lakh rupees, may opt to pay, in lieu of the tax payable by him, an amount calculated at such rate as may be prescribed, but not exceeding,-

- (a) one per cent. of the turnover in State or turnover in Union territory in case of a manufacturer,
- (b) two and a half per cent. of the turnover in State or turnover in Union territory in case of persons engaged in making supplies referred to in clause (b) of paragraph 6 of Schedule II, and
- (c) half per cent. of the turnover in State or turnover in Union territory in case of other suppliers,

subject to such conditions and restrictions as may be prescribed:

Provided that the Government may, by notification, increase the said limit of fifty lakh rupees to such higher amount, not exceeding one crore rupees, as may be recommended by the Council.

(2) The registered person shall be eligible to opt under sub-section (1), if:—

- (a) he is not engaged in the supply of services other than supplies referred to in clause (b) of paragraph 6 of Schedule II;
- (b) he is not engaged in making any supply of goods which are not leviable to tax under this Act;
- (c) he is not engaged in making any inter-State outward supplies of goods;
- (d) he is not engaged in making any supply of goods through an electronic commerce operator who is required to collect tax at source under section 52; and
- (e) he is not a manufacturer of such goods as may be notified by the Government on the recommendations of the Council:

Provided that where more than one registered persons are having the same Permanent Account Number (issued under the Income-tax Act, 1961), the registered person shall not be eligible to opt for the scheme under sub-section (1) unless all such registered persons opt to pay tax under that sub-section.

- (3) The option availed of by a registered person under sub-section (1) shall lapse with effect from the day on which his aggregate turnover during a financial year exceeds the limit specified under sub-section (1).
- (4) A taxable person to whom the provisions of sub-section (1) apply shall not collect any tax from the recipient on supplies made by him nor shall he be entitled to any credit of input tax.
- (5) If the proper officer has reasons to believe that a taxable person has paid tax under sub-section (1) despite not being eligible, such person shall, in addition to any tax that may be payable by him under any other provisions of this Act, be liable to a penalty and the provisions of section 73 or section 74 shall, *mutatis mutandis*, apply for determination of tax and penalty.

15.3: Section 39 (2) of CGST Act, 2017- Furnishing of Return by Taxable Person under Composition levy.

Section 39(2): A registered person paying tax under the provisions of section 10 shall, for each quarter or part thereof, furnish, in such form and manner as may be prescribed, a return, electronically, of turnover in the State or Union territory, inward supplies of goods or services or both, tax payable and tax paid within eighteen days after the end of such quarter.

15.4: CGST Rules, 2017: Rules 3 to 7 [notified vide notification No. 3/2017-Central Tax, dated 19.6.2017 (effective 22.6.2017)]

Rule 3. Intimation for composition levy.-

- (1) Any person who has been granted registration on a provisional basis under clause (b) of sub-rule (1) of rule 24 and who opts to pay tax under section 10, shall electronically file an intimation in FORM GST CMP-01, duly signed or verified through electronic verification code, on the common portal, either directly or through a Facilitation Centre notified by the Commissioner, prior to the appointed day, but not later than thirty days after the said day, or such further period as may be extended by the Commissioner in this behalf:

Provided that where the intimation in FORM GST CMP-01 is filed after the appointed day, the registered person shall not collect any tax from the appointed day but shall issue bill of supply for supplies made after the said day.

- (2) Any person who applies for registration under sub-rule (1) of rule 8 may give an option to pay tax under section 10 in Part B of FORM GST REG-01, which shall be considered as an intimation to pay tax under the said section.
- (3) Any registered person who opts to pay tax under section 10 shall electronically file an intimation in FORM GST CMP-02, duly signed or verified through electronic verification code, on the common portal, either directly or through a Facilitation Centre notified by the Commissioner, prior to the commencement of the

financial year for which the option to pay tax under the aforesaid section is exercised and shall furnish the statement in FORM GST ITC-03 in accordance with the provisions of sub-rule (4) of rule 44 within a period of sixty days from the commencement of the relevant financial year.

- (4) Any person who files an intimation under sub-rule (1) to pay tax under section 10 shall 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 said section, 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.
- (5) Any intimation under sub-rule (1) or sub-rule (3) 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.

4. Effective date for composition levy.-

- (1) The option to pay tax under section 10 shall be effective from the beginning of the financial year, where the intimation is filed under sub-rule (3) of rule 3 and the appointed day where the intimation is filed under sub-rule (1) of the said rule.
- (2) The intimation under sub-rule (2) of rule 3, shall be considered only after the grant of registration to the applicant and his option to pay tax under section 10 shall be effective from the date fixed under sub-rule (2) or (3) of rule 10.

5. Conditions and restrictions for composition levy.-

- (1) The person exercising the option to pay tax under section 10 shall comply with the following conditions, namely:-
 - (a) he is neither a casual taxable person nor a non-resident taxable person;
 - (b) the goods held in stock by him on the appointed day have not been purchased in the course of inter-State trade or commerce or imported from a place outside India or received from his branch situated outside the State or from his agent or principal outside the State, where the option is exercised under sub-rule (1) of rule 3;
 - (c) the goods held in stock by him have not been purchased from an unregistered supplier and where purchased, he pays the tax under sub-section (4) of section 9;
 - (d) he shall pay tax under sub-section (3) or sub-section (4) of section 9 on inward supply of goods or services or both;
 - (e) he was not engaged in the manufacture of goods as notified under clause (e) of sub-section (2) of section 10, during the preceding financial year;
 - (f) 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
 - (g) 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.
- (2) The registered person paying tax under section 10 may not file a fresh intimation every year and he may continue to pay tax under the said section subject to the provisions of the Act and these rules.

6. Validity of composition levy.-

- (1) The option exercised by a registered person to pay tax under section 10 shall remain valid so long as he satisfies all the conditions mentioned in the said section and under these rules.
- (2) The person referred to in sub-rule (1) shall be liable to pay tax under sub-section (1) of section 9 from the day he ceases to satisfy any of the conditions mentioned in section 10 or the provisions of this Chapter and shall issue tax invoice for every taxable supply made thereafter and he shall also file an intimation for withdrawal from the scheme in FORM GST CMP-04 within seven days of the occurrence of such event.
- (3) The registered person who intends to withdraw from the composition scheme shall, before the date of such withdrawal, file an application in FORM GST CMP-04, duly signed or verified through electronic verification code, electronically on the common portal.
- (4) Where the proper officer has reasons to believe that the registered person was not eligible to pay tax under section 10 or has contravened the provisions of the Act or provisions of this Chapter, 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 section 10 shall not be denied.

- (5) Upon receipt of the reply to the show cause notice issued under sub-rule (4) from the registered person 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 section 10 from the date of the option or from the date of the event concerning such contravention, as the case may be.
- (6) Every person who has furnished an intimation under sub-rule (2) or filed an application for withdrawal under sub-rule (3) or a person in respect of whom an order of withdrawal of option has been passed in FORM GST CMP-07 under sub-rule (5), may electronically furnish at the common portal, either directly or through a Facilitation Centre notified by the Commissioner, 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 withdrawn or denied, within a period of thirty days from the date from which the option is withdrawn or from the date of the order passed in FORM GST CMP-07, as the case may be.
- (7) Any intimation or application for withdrawal under sub-rule (2) or (3) or denial of the option to pay tax under section 10 in accordance with sub-rule (5) 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.

7. Rate of tax of the composition levy.-

The category of registered persons, eligible for composition levy under section 10 and the provisions of this Chapter, specified in column (2) of the Table below shall pay tax under section 10 at the rate specified in column (3) of the said Table:-

Sl. No.	Category of registered persons	Rate of tax
(1)	(2)	(3)
1.	Manufacturers, other than manufacturers of such goods as may be notified by the Government	one per cent.
2.	Suppliers making supplies referred to in clause (b) of paragraph 6 of Schedule II	two and a half per cent.
3.	Any other supplier eligible for composition levy under section 10 and the provisions of this Chapter.	half per cent.

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