

Composition Scheme Under GST

What is the GST composition scheme?

GST composition scheme is a tax paying mechanism offered to small businesses. When compared to normal GST filing, the composite scheme offers two main benefits: reduced paperwork and compliance, and lower tax liability. For instance, normal tax payers need to submit 3 monthly GST returns (GST-1, GST-2, and GST-3) and one annual return (GST 9). However, if you've applied for the composition scheme GST, filing gets easier as you need to file just one quarterly return (GSTR 4), and one annual return (GSTR 9A).

Upon registering for the composition scheme under GST, you are liable to pay tax at a fixed rate of 1% to 6% of your turnover. For instance, if you are a manufacturer of goods other than tobacco, ice cream or pan masala, then thanks to the composition GST, you just have to pay 1% tax basis your turnover.

GST composition scheme rules

As per the GST Act, a range of manufacturing and service businesses and traders can register under the GST composition scheme, excluding the following:

- Individuals or businesses who supply goods through an e-commerce portal operator that collects tax at source
- Non-resident taxable persons or casual taxable persons
- Ice cream manufacturers or manufacturers of other edible ice with(out) cocoa as additives
- Manufacturers of pan masala and tobacco products and substitutes

- Individuals or businesses who have purchased goods from unregistered suppliers (allowed if GST is paid on such goods on reverse charge basis)
- Suppliers involved in the supply of goods that are exempt under GST Act
- Suppliers involved in the supply of goods and services

Who can and cannot avail the GST composition scheme?

As a taxpayer, you can opt for the GST composition scheme provided your annual turnover falls within the specified limits. It's important to note that the GST composition limit includes turnover for all businesses registered under a particular PAN. In general, small manufacturers, traders and service providers can avail of the composite scheme.

- Shopkeeper
- Food-service unit
- Small manufacturing unit
- Trade/manufacturing sector unit
- Fruit and vegetable vendor
- Service sector unit
- Truck operator
- Repair shop
- Machine operator
- Artisan and more

What is the GST composition scheme limit?

The composition scheme limit under GST varies depending on the type of business you have.

- For manufacturers and traders: As a newly registered business, your turnover should not exceed Rs.1.5 crore in the current

financial year. If you have already registered, then your turnover must not exceed Rs.1.5 crore in the previous financial year.

- For restaurants not serving alcohol: The above terms apply here as well.
- For service providers: As a newly registered business, your turnover should not exceed Rs.50 lakh in the current financial year. If you have already registered, then your turnover must not exceed Rs.50 crore in the previous financial year.

Additionally, the Rs.1.5 crore cap is further limited in Special Category States to Rs.75 lakh. Further, in the event that your turnover exceeds the specified composition scheme limit in a financial year, you will have to convert to the regular GST payment mechanism in order to comply with the gst composition scheme rules.

What are the benefits composition scheme in GST?

The salient benefits of the GST composition scheme are:

- ***Reduced tax payments***

With the new tax rate structure, the liability for taxpayers has reduced.

- ***Lower compliance requirements***

With lesser compliance to be followed in terms of keeping books of record, taxpayers now need to file fewer returns and can side-step the need to provide tax invoices.

- ***Increased liquidity***

From the financial perspective, reduced tax liability via the fixed rate translates to higher levels of liquidity for the business. With more liquidity you can maintain cash flow better, which will help you sustain operations smoothly.

Are there any drawbacks of opting for composition scheme under GST?

While GST composition is advantageous, there are a few pitfalls to the scheme that you should be aware of :-

- ***No Input Tax Credit***

B2B businesses are not allowed the credit of input tax paid from the output liability. Even, the buyer of such goods will not get any credit on tax paid, resulting in price distortion and cascading. As a buyer registered as a normal taxpayer will not get any credit when buying from a person registered under composition scheme, this results in a loss of business. Eventually, such buyers might avoid purchases from a taxpayer under the scheme.

- ***No Collection of Tax***

Under the scheme, taxpayers are not allowed to recover composition tax from their buyers, as they are not allowed to raise a tax invoice.

- ***Restricted geography/reach for businesses***

Businesses are restricted geographically, as GST composition does not cover inter-state transactions. They also cannot leverage the potential of the internet as supply of goods via e-commerce portals.

What are the tax rates applicable for the composition scheme in GST?

Upon registering for GST composition, a fixed tax rate applies to your business turnover. The current rates are as follows:

- **For goods manufacturers and traders:** 1% GST, divided as 0.5% CGST and 0.5% SGST

- **For restaurants not serving alcohol:** 5% GST, divided as 2.5% CGST and 2.5% SGST
- **For service providers:** 6% GST, divided as 3% CGST and 3% SGST

Applicable GST Rates under GST Composition Scheme			
Type of Business	CGST	SGST	Total GST
Manufacturers and traders of goods	0.5%	0.5%	1%
Restaurants (not serving alcohol)	2.5%	2.5%	5%
Service Providers	3%	3%	6%

The taxes you pay come from your own finances as you do not charge any to consumers and include taxes on supplies made and on reverse charge.