TITLE : PRIVILEDGE TO SMALL TAXPAYERS UNDER GST

BY CA SUNNAY JARIWALA

Executive Summary :-

Composition Scheme from the name itself seems catchy and favourite for small business men and traders. But in GST, the scenario is totally different. Except the ease of filing quarterly returns which now even under regular scheme its possible, there are more limitations as compared to its benefits. With a practical scenario as a case study mentioned below and the list of restrictions attached as a string to this scheme, opting for this scheme might seem to opt for Sweet Poison in the long run.

- **Introduction :**

With the timely and rapid implementation of GST in India, there was a huge hue and cry amongst small traders and businessmen as to how would they maintain their books of accounts and deal with the GST Laws provisions. Similar to the Lumpsum or compostion scheme under VAT under different State Acts, on the same grounds A Composition Scheme has been designed under CGST Act,2017. But as GST has a different perspective as Whole Nation will be a Single Market there are various restrictions attached with this scheme too. Let‘s see the nity – grity of this scheme in this article with a Practical Case Study whether this scheme will be really beneficial to the business community or not?

- **Eligibility for opting for Composition Scheme under GST :**

PARTICULARS	CRITERIA
Turnover during the financial year	Rs.1 .5 Crores
IN CASE OF SERVICE PROVIDER	As defined in Para II, 6 (b) of Sch – II, Allowed only if HE IS INTO RESTAURANT SERVICE wherein there is Supply of foods or drinks (except alcoholic liquor). So it is implied that a restaurant serving Alcoholic liquor cannot opt for composition scheme.
IN CASE OF SUPPLY OF GOODS :	Goods should be taxable under this Act i.e. No Exempt goods supply will be allowed.
	He cannot make Inter State Outward Supply of Goods
	He should not sell any goods to be supplied through E Commerce Operator
	He should not be a manufacturer of goods as notified by the Government

- **Is it true that opting for composition scheme results to less compliance ?**
- It's true to some extent that composition scheme is to assist small tax payers with less compliance and lower tax rates. But seeing the list of forms to be filed in this scheme, we seldom feel the factor of less compliance.

DIFFERENT FORMS TO BE FILED UNDER COMPOSITION SCHEME :-

Form	Purpose
GST-CMP-01	TO OPT FOR SCHEME BY PROVISION REGISTRATION HOLDER
GST-CMP-02	INTIMATION OF WILLINGNESS TO OPT FOR SCHEME
GST-CMP-03	DETAILS OF STOCK AND INWARD SUPPLIES FROM UNREGISTERED PERSON
GST-CMP-04	INTIMATION OF WITHDRAWAL FROM SCHEME
GST-CMP-05	SHOW CAUSE NOTICE ON CONTRAVENTION OF RULES OR ACT BY PROPER OFFICER
GST-CMP-06	REPLY OF SHOW CAUSE NOTICE
GST-CMP-07	ISSUE OF ORDER

Rate of tax applicable to different composition taxable person :

PARTICULARS	CGST	SGST	TOTAL
Manufacturer	0.5%	0.5%	1%
Traders (Goods)	0.5%	0.5%	1%
Supply of Food or Drinks except Alcohol – Human Consumption	2.5%	2.5%	5%

Procedure for opting to pay tax under composition scheme :

Section 18(4) of CGST Act

If any registered person who has availed of ITC opts to pay tax under Section 10 CGST Act (Normal Scheme)

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He shall pay an amount equivalent to the credit of input tax in respect of :

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1. Inputs held in stock,
2. Inputs contained in semi-finished goods and finished goods held in stock.
3. Capital Goods (Pay amount on it by reducing by prescribed percentage points.)

- If the taxable person switches from normal scheme to composition scheme at the beginning of Financial year

And

- If he was paying tax under normal scheme upto 31st March , He will have to file details of outward and inward supplies upto :

1. Return of following September

OR

2. Furnishing of Annual return

Whichever is earlier [Rule 62(4) of CGST and SGST Rules,2017]

- Is having lower turnover the only criteria to opt for Composition Scheme?

Conditions for opting to pay tax under composition scheme:

(a) Neither

Casual Taxable Peron

Non-Resident Taxable person

(b)

On the appointed day, the goods held in stock by him have not been purchased in the course of:

- Inter-State trade
- Commerce
- From his agent or principal outside the State, where the option is exercised under sub-rule (1) of rule 3
- Imported from a place outside India
- Received from his branch situated outside the State

(c)

Goods have not been purchased from an unregistered Supplier which is held in stock by him

If Purchased

he pays the tax under sub-section (4) of section 9

(d)

On inward supply of Goods or Services or BOTH

He shall pay tax under sub-section (3) or sub-section (4) of sub section 9

(e)

During the preceding Financial Year

- He was not engaged in the manufacture of goods as notified under clause (e) of sub-section (2) of section 10

(f)

- At the top of the bill of supply issued by him, he shall mention words:

"Composition taxable person, not eligible to collect tax on supplies"

(g)

Display of "Composition Taxable Person"

Every Notice

Signboard

a) At Principal Place
b) Every Additional Place
c) Place of Businesses

If from any given date any of the above conditions are not met than the registered person from that date will be liable to pay tax under normal scheme – Sec 9(1).He will be required to intimate by form GST CMP 04 within 7 days from this date as per Rule 6(2) of CGST,2017

Withdrawal from Composition Scheme

Section 18(1)(c) of CGST Act

If taxable person switches from composition scheme to normal scheme

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He is entitled to take ITC in respect of

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1. Inputs held in stock,
2. Inputs contained in semi-finished goods and finished goods held in stock
3. On capital goods with a prescribed method

On the day immediately preceding the date from which he becomes liable to pay tax.(Under Sec 9 of CGST Act)

- **<u>Person who can withdraw:-</u>**

(a) Person who has furnished an intimation [Under Rule 6(2)] or

(b) Filed an application for <u>withdrawal</u> [Under Rule 6(3)] or

(c) Person in respect of whom an order of withdrawal of option has been passed in Form GST CMP- 07 [Under Rule 6(5) rule of CGST Rules, 2017]

Withdrawal means withdrawal from all places of business of person registered on same PAN [Rule 6(7) of CGST Rules, 2017]

<u>Procedure to withdraw from composition scheme :</u>

1. File a statement in Form GST ITC – 01, Containing details of
   a. Stock of inputs and
   b. Inputs contained in semi-finished or finished goods

Held in stock by him on the date on which the option is withdrawn or denied.

2. Statement should be filed within 30 days from
    a. The date from which option is withdrawn

       OR

    b. Date of order passed in form GST CMP-07
       As applicable [Rule 6(6) of CGST Rule,2017]

Return to be filed in Form GSTR-4

The taxable person is required to file return in Form GSTR – 4

a) For quarter ending September of succeeding financial year

   OR

b) Furnishing of annual return of preceding financial year

Whichever is earlier [Rule 62(5) of CGST and SGST Rules 2017]

Other Important Factors :-

- The foremost important aspect is that a person registered under this scheme cannot take or claim Input Tax Credit on inward supply of goods or services. Moreover, for tax on outward supply of goods and services he cannot collect tax amount from his customers also, it means he needs to bear and pay the tax amount as applicable on the output of goods and services.
- He can purchase from Inter - State inward supplier of goods.
- Manufacturers of ice cream, pan masala, tobacco and tobacco substitutes are not eligible to opt for composition scheme as per FAQ issued by CBEC.
- A person opting for this scheme, needs to have all registrations under this Pan be covered under this scheme. He cannot have a separate business vertical – one under regular scheme and another under composition scheme, having same Pan. Moreover, all his supplies will be covered under this scheme. He cannot have different class of goods one under composition scheme and another under regular scheme.

Change over from Normal to Composition Scheme : Any registered person who wants to opt for this scheme from normal scheme, can do so only in the beginning of the financial year. He needs to intimate in form GST CMP – 02 online on the portal prior to the commencement of the financial year. Moreover, he will have to reverse the input tax credit lying as in stock of goods as on year end i.e 31St March.

Benefits of this Scheme :-

- This scheme a like Composition or lump sum scheme in the Vat Era is beneficial to small traders as it reduces compliance costs, saves tax to some extent and has ease of doing business.

  Catch Points : There are many restrictions as discussed in the supra para for a person to opt for composition scheme. Practically, speaking it is only best suited to people having less turnover and those who have only local sales and purchases. The concept of payment by way of Reverse Charge if purchased from unregistered person would had been applicable and would be a costly task as the tax rate applicable would be the normal rates and not the composition rates. Although till 31/03/18, the Government has suspended this payment by way of Notification No 38/2017.

Practical Case Study :-

Many a times, the clients have a question whether to go for composition scheme or not.

Now, we all readers are aware it’s a personal choice and more so has to be seen on case basis, seeing the business cycle, location of suppliers and customers and the opportunity cost involved therein. Let s take up a case of a retail store of garments, who have purchases from outside their state but has only local sales.

GTS - Regular vs Composition scheme

Sale price of Garment < 1000 Rs

Regular Scheme

Purchase	600
GST (5%)	30
Landing Cost	630

Cost	630
Mark Up (Assume 23.8%)	149.94
Cost for Sale	779.94

Cost for Sale	779.94
GST (5%)	38.997
Sale price	818.937

ITC IMPLICATIONS :-

Output GST Collected	38.997
Input GST	30
Net Payable GST from pocket	8.997

Purchase	630
Input GST Adjusted	30
Effective cost of purchase	600
Actual Margin Earned	179.94
Take Away Home	179.94
Sale price	818.937

Profit Ratio 21.97%

Composition Scheme

Purchase	600
GST (5%)	30
Landing Cost	630

Cost	630
Mark Up (Assume 30%)	189
Cost for Sale	819

Cost for Sale	819
GST	N.A
Sale price	819

Output GST Collected	NA
Input GST	30
Already Paid to Supplier	30

Purchase	600
GST Paid to Supplier	30
Effective cost of purchase	630
Actual Margin Earned	189
Output Tax : 1 % GST paid under Comp.Scheme	8.19
Take Away Home	180.81
Sale price	819

Profit Ratio 22.08%

GTS - Regular vs Composition scheme

Sale price of Garment >1000 Rs

Regular Scheme		Composition Scheme	
Purchase	1200	Purchase	1200
GST (12%)	144	GST (12%)	144
Cost	1344	Cost	1344

Cost	1344	Cost	1344
Margin	215.04	Margin (30%)	403.2
Cost for Sale	1559.04	Cost for Sale	1747.2

Cost for Sale	1559.04	Cost for Sale	1747.2
GST (12%)	188.64	GST	N.A
Sale price	1747.684	Sale price	1747.2

Output GST	188.64	Output GST	N.A
Input GST	144	Input GST	144
Payable	44.64	Paid	144

Purchase	1200	Purchase	1200
		GST Paid	144
Effective cost of purchase	1200	Effective cost of purchase	1344

Margin	359.04	Margin	403.2
		1 % GST Comp.Scheme	17.472
Net Margin	359.04	Net Margin	385.72
Sale price	1747.684	Sale price	1747.2

Profit Ratio	20.54%	Profit Ratio	22.08%

Analysis	For Sale Price below Rs 1000/-, both schemes has almost same margin.

For Sale Price above Rs 1000/- Composition scheme is better by just 1.54 % margin.
But the loss of potential Input Tax Credit also needs to be considered before opting for composition scheme

<u>In my personal view, Regular scheme will be better.</u>

Note: The Mark Ups (Margin) Assumed rates has been kept different so as to come to a common base of Sale
Price for comparison between both schemes.

Conclusion : As seen from the above workings, we can see that keeping the sales price being below Rs.1000, both the schemes are same and for garments having sale price above Rs.1000, the margin for the shopkeeper is just higher by 1.54% in composition scheme. But the potential loss of Input Tax Credit which he will have to forgo on other inward supplies like Furniture, Purchase of new Desktop/ Laptop, Air Conditioner, Cell Phone - for office use and similar products in my personal view would be far more costly as compared to the cost of maintaining and keeping records and getting his GST Return filed under regular scheme.

Hence, composition scheme will not be too helpful for such business owners or at least to one who has reasonable turnover say Rs.30 Lacs onwards.

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