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Composition Scheme in GST

Composition scheme in GST is introduced to provide benefit to small business from compliance structure of GST and to provide a simplified GST regime with certain limitations. Broadly in GST regime provide two composition schemes, one is through Sec 10(1) of CGST Act, 2017 and other is through Sec 10(2A) of CGST Act (via NN 2/2019 dated 07.03.2019.) Let's understand each structure-

1. Section 10 (1)-Composition Levy (CGST Act, 2017)

1.1 Who is Eligible for composition levy under section 10(1)?

- Turnover during **previous financial year** shall be upto 1.5 crore (or 75 Lakh in respect of 8 special category states via Arunachal Pradesh, Uttarakhand, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura)
Turnover include Taxable Supplies, Exempt Supplies, Export (Zero Rated Supply), Inter State Supplies of person having same PAN be computed on all India basis.

1.2 Who is not Eligible for composition levy under section 10(1)?

1. Engaged in **supply of service exclusively**,
2. Engaged in making any supply of goods which are not leviable to tax under this Act (**Non-GST Supplies of Goods**)
3. Engaged in inter state **OUTWARD** supply of **GOODS**,
4. Engaged in supply through E comm operator (**Online Seller**)
5. Engaged in **manufacturing** of Ice Cream, PAN Masala & Tobacco

1.3 Conditions & Restrictions of Composition levy under sec 10(1)

- Composite supplier cannot collect Tax
- Composite Supplier is not eligible for getting Input Tax Credit
- He is neither casual taxable person nor a Nonresident Taxable person
- He shall mention words "composite taxable person, not eligible to collect tax on supplies" on the top of bill of supply.
- He shall mention the words composite taxable person on every notice and signboard.

1.4 Rate of Tax

- Manufacturer and Traders – 1%
- Restaurant Services – 5%

1.5 Concept of Marginal supply of Services

Fundamentally Composition Levy under section 10 can be avail by supplier of goods only and only one service namely restaurant. However, there are certain cases where manufacturer/trader also engage in supply of service other than restaurant.

Keeping in view the above situation government introduce second proviso to section 10(1) which allow the supplier of goods to supply service upto a certain limit. The limits are prescribed as follows-

- 10% of turnover in preceding year,
OR
- 5 Lakh,

Whichever is **higher**.

Example1- Ms. Ranjana Tiwari is an entrepreneur considering to get register in GST regime for increase her scope of work. However, she is confused about the composition scheme specially because she trades in goods, however she provides service of insurance, warranty & shipment services which are ancilliary to the supply of goods. Advise Ms. Tiwari on “Marginal Supply of services available” for supply of goods under section 10 of CGST Act,2017

Advise – If Ms. Ranjana Tiwari is eligible to get into composition scheme then as per second proviso to section 10(1) of CGST Act,2017, she is eligible to supply services along with supply of goods as follows-

- 10% of turnover in **preceding year**,
OR
- 5 Lakh,

Whichever is **higher**.

Now since Ms. Tiwari does' have any turnover during previous year, she is eligible to supply service along with supply of goods upto Rs.5 Lakhs.

Example 2- Mr. Prakash is engaged in supply of goods and register in composition scheme as provided in section 10 of CGST Act,2017. His aggregate turnover during the year 2019-20 was Rs.80 Lakhs. Advise Mr. Prakash what would be the maximum amount of Supply of Service he can make along with supply of goods.

Advise – As per second proviso to sec 10(1) of CGST Act 2017, marginal supply limit are as follows-

- 10% of turnover in **preceding year**, (i.e. 8 Lakh, $80 \times 10\%$)
OR
- 5 Lakh,

whichever is higher

Hence Mr. Prakash can make supply of service of Rs.8 Lakhs in current FY 2020-21.

2. Sec 10(2A), Notification No. 2/2019 Dated 07.03.2019

As composition scheme provided by Sec 10 for supplier providing goods and restaurant services and marginal service is available for such suppliers. Thus, there is need to provide a scheme for small Service Providers as well like Gym trainers, Beauty parlor, Tailor, small coaching center. In order to provide benefit to such supplier of service who exclusively engaged in service, a scheme to pay tax at concessional rate has been formulated via NN 2/2019 dated 07.03.2019 which is explained below-

2.1 Who is eligible for composition scheme under Sec 10 (2A)?

- A registered person whose aggregated turnover in the **preceding financial year** does not exceed Rs.50 Lakhs and who is **exclusively** engaged in **supplying service** other than restaurant services.

2.2 Who is not eligible for composition scheme under Sec 10 (2A)?

1. Engaged in any supply of which is not leviable under this Act (**Non-GST Supply**)
2. Engaged in interstate **OUTWARD** supply of **GOODS & SERVICE**,
3. Engaged in supply through E comm operator (**Online Seller**)
4. Engaged in **manufacturing** of Ice Cream, PAN Masala & Tobacco
5. Eligible for Composition Levy under Sec 10 of CGST Act,2017

2.3 Conditions & Restrictions of Composition levy under Sec 10 (2A)

- Composite supplier cannot collect Tax
- Composite Supplier is not eligible for getting Input Tax Credit
- He is neither casual taxable person nor a Nonresident Taxable person
- He shall mention words “composite taxable person, not eligible to collect tax on supplies” on the top of bill of supply.
- He shall mention the words composite taxable person on every notice and signboard.

Rate of Tax

- Rate of Tax is **6%**

3 When Composition Scheme Expire-

3.1 When taxpayer cease to satisfy prescribed condition

In case where any **prescribed condition** under section 10 of CGST Act,2017 and NN 2/2019 **cease**, the taxpayer need to pay tax under regular scheme and need to comply all rules of regular supplier instead of composite supplier.

3.2 When taxpayer withdrawal from composition scheme

The registered person who intends to withdrawal from the composition scheme shall, before the date of such withdrawal, file an application.

Effective date from which withdrawal from the composition scheme shall take effect from the date indicated by him in his application but such date may not be prior to the commencement of the FY.