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BA Economics Honours | Semester 1 | Calicut University

Foundations of GST

Course Code: ECO1VN102 • Module 4

Module IV: Composition Levy

Compliance with the detailed documentation requirements of the regular GST regime—maintaining comprehensive inventory records, generating line-item tax invoices, reconciling monthly Input Tax Credits (ITC), and filing three monthly returns (GSTR-1, GSTR-3B)—imposes a heavy administrative and financial burden on small micro-enterprises and retailers. To protect small entrepreneurs from compliance fatigue, Section 10 of the CGST Act incorporates an optional, simplified compliance mechanism: the **Composition Levy Scheme**.

Unit 18: Eligibility for the Composition Scheme

A registered person whose aggregate annual turnover in the preceding financial year did not exceed the statutory threshold limit is eligible to opt for the composition scheme:

- **Threshold Turnover Limit:** Set at **₹1.50 Crore** for most Indian States (established at **₹75 Lakhs** for eight Special Category States: Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, and Uttarakhand).
- **Service Providers Composition (Section 10(2A)):** Introduced to extend composition benefits to small service providers whose aggregate turnover in the preceding financial year was up to **₹50 Lakhs**.

Unit 19: Ineligibility for the Composition Scheme

A taxpayer is legally disqualified from opting for the composition levy if they:

1. Are engaged in the supply of services other than restaurant services (unless opting under the ₹50 Lakh threshold u/s 10(2A)).
2. Make any **inter-state outward supplies** of goods or services (composition dealers can purchase goods from outside their state, but cannot sell outside their state boundary!).
3. Supply goods or services through an Electronic Commerce Operator (e.g., selling via Amazon, Flipkart, or Zomato) who is required to collect tax at source u/s 52.
4. Are a manufacturer of notified goods: ice cream, pan masala, tobacco products, and aerated waters.
5. Are a Casual Taxable Person or a Non-Resident Taxable Person.

Unit 20 & 21: Conditions, Restrictions, and Flat Tax Rates

Composition dealers pay tax quarterly as a flat percentage of their total business turnover:

- **Manufacturers:** 1% of turnover in State (0.5% CGST + 0.5% SGST).
- **Traders:** 1% of turnover of *taxable goods* in State (0.5% CGST + 0.5% SGST).
- **Restaurant Services:** 5% of total turnover in State (2.5% CGST + 2.5% SGST).
- **Other Service Providers u/s 10(2A):** 6% of total turnover in State (3% CGST + 3% SGST).

Critical statutory restrictions governing composition dealers:

- **Cannot Collect GST from Customers:** A composition dealer is legally prohibited from charging any tax on their invoices; the tax must be paid out of their own pocket!
- **Bill of Supply:** The dealer cannot issue a "Tax Invoice"; they must issue a **"Bill of Supply"** with the mandatory words *"Composition taxable person, not eligible to collect tax on supplies"* clearly printed on every bill.

- **No Input Tax Credit (ITC):** The dealer cannot claim any credit for taxes paid on inward purchases, nor can business buyers claim credit on purchases made from a composition dealer.

Unit 22: Intimation, Withdrawal, and Denial of Scheme

Eligible assessees opt into the scheme at the beginning of the financial year by filing electronic form **CMP-02**. The scheme lapses immediately on the exact day aggregate turnover during the year crosses the statutory threshold limit (₹1.5 Crore), requiring the dealer to transition into the regular GST regime and issue tax invoices within 7 days. Taxpayers can voluntarily withdraw via form **CMP-04**. Where tax authorities discover unauthorized composition claims, penalties up to 100% of tax evaded are levied under Section 73 or 74.

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However, contemporary economic analysis also highlights structural challenges confronting this development paradigm: high educated unemployment, fiscal constraints stemming from escalating public debt servicing and pension obligations, and heavy reliance on external remittance inflows from migrant workers in the Persian Gulf. Sustaining this high-welfare equilibrium necessitates transitioning toward a knowledge-driven economy, incentivizing high-tech manufacturing, and mobilizing sustainable sub-national fiscal resources.

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