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COMPOSITION LEVY

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Introduction

The composition levy is an alternative method of levy of tax designed for small taxpayers whose turnover is up to prescribed limit. The objective of composition scheme is to bring simplicity and to reduce the compliance cost for the small taxpayers. Primarily, the composition scheme is available to the suppliers of goods and restaurant service, but composition suppliers are permitted to supply services upto a specified marginal value in the year of opting for composition. Small taxpayers with an aggregate turnover in a preceding financial year upto ₹ 1.5 crore shall also be eligible for composition levy.

Suppliers opting for composition levy need not worry about the classification of their goods and services or both, and the rate applicable on their goods and/or services etc. They are not required to raise any tax invoice, but simply need to issue a Bill of Supply wherein no tax will be charged from the recipient.

Composition Levy – Sec 10

Sec 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 **₹ 50 lakh**, may opt to pay, in lieu of the tax payable by him under sub-section (1) of section 9, an amount of tax calculated at such rate as may be prescribed, but **not exceeding**,—
 - (a) **1%** of the **turnover** in State or turnover in Union territory in case of a **manufacturer**,
 - (b) **2.5%** 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, **(Restaurant Service)** and
 - (c) **0.5%** 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 **₹ 50 lakh** to such higher amount, not exceeding **₹ 150 Lakh**, as may be recommended by the Council.

Provided further that a person who opts to pay tax under clause (a) or clause (b) or clause (c) may supply services (other than those referred to in clause (b) of paragraph 6 of Schedule II), of value **not exceeding**

- 10% of turnover in a State or Union territory in the preceding financial year or
- ₹ 5 Lakhs,
whichever is higher

Composition Levy – Sec 10

[Explanation.—For the purposes of second proviso, the value of exempt supply of services provided by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount shall not be taken into account for determining the value of turnover in a State or Union territory.] **[Inserted vide Finance (No. 2) Act, 2019, w.e.f. 1-1-2020]**

Sec 10(2) The registered person shall be eligible to opt under sub-section (1), if:—

- (a) save as provided in sub-section (1), he is not engaged in the supply of services
- (b) he is not engaged in making any supply of goods [or services]* which are not leviable to tax under this Act;
- (c) he is not engaged in making any inter-State outward supplies of goods [or services]*;
- (d) he is not engaged in making any supply of [~~goods~~] [~~or services~~]* through an electronic commerce operator who is required to collect tax at source under section 52; and * Word goods omitted vide The Finance Act, 2023, w.e.f. 1-10-2023. With this amendment, good suppliers through ECO are also eligible to opt for composition levy.
- (e) he is not a manufacturer of such goods as may be notified by the Government on the recommendations of the Council:
and
- (f) he is **neither** a casual taxable person (**CTP**) nor a non-resident taxable person (**NRTP**):

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.

* Inserted vide The Finance Act, 2020, w.e.f. 1-1-2021. With this amendment, service providers are also eligible to opt for composition levy.

Composition Levy – Sec 10

Note –

1. “subject to the provisions of sub-sections (3) and (4) of section 9” means that person opting to pay GST under composition scheme shall be liable to pay tax on RCM basis on goods and/or services listed under Sec 9(3) and Sec 9(4). **Although composition dealer pays tax at reduced rate, they are required to pay tax on RCM basis on the rates applicable on such supplies of goods or services received on which RCM is applicable.**
Eg If the supplier paying tax on Composition scheme receives Legal services from advocate, he shall have to pay GST on RCM basis @ 18% on such Legal services.
2. Person who can opt for composition levy - whose **aggregate turnover** in the **preceding financial year** did not exceed ₹ **150 lakh** (NN 14/2019-CT dt 7-3-2019). However, the said notification further stipulates that the turnover limit for composition levy shall be ₹ **75 lakh** in respect of 8 of the Special Category States, namely –

Special Category States	
Arunachal Pradesh	Nagaland
Mizoram	Tripura
Meghalaya	Sikkim
Manipur	Uttarakhand
In case of Assam, Himachal Pradesh and J&K, the turnover limit will be ₹ 1.5 crore	

Composition Levy – Sec 10

Sec 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;

Sec 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;

Composition Levy – Sec 10

Note –

3. **Rates of tax under the composition levy scheme ([Sec 10\(1\) read with rule 7](#))** – A registered person, whose aggregate turnover in the preceding FY does not exceed ₹ 1.5 crore, may opt tax calculated at the following rates

S. No.	Category of registered persons	Rate of Tax
1	Manufacturers, other than manufacturers of such goods as may be notified by the Government	0.5% of the turnover in the State or Union territory
2	Suppliers making supplies referred to in clause (b) of paragraph 6 of Schedule II	2.5% of the turnover in the State or Union territory
3	Any other supplier eligible for composition levy under section 10 and the provisions of this Chapter	0.5% of the turnover of taxable supplies of goods and services in the State or Union territory

4. Interest Income to be excluded while computing aggregate turnover for determining eligibility for composition scheme (**Order No. 1/2019-CT dt 1-2-2019, now included in Act through Explanation**) and also for computing supply of services under second proviso to section 10(1).

Intimation for Composition Levy

Rule 3(1) Transitional Provision – thus not discussed here

Rule 3(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**.

Rule 3(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 rule 44(4) within a period of **60 days** from the commencement of the relevant financial year.

[**Provided** that any registered person who opts to pay tax under section 10 for the **financial year 2020-21** 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, on or before 30-6-2020 and shall furnish the statement in FORM GST ITC-03 in accordance with the provisions of rule 44(4) upto the 31-7-2020.][**Inserted vide NN 30/2020-CT, w.e.f. 31-3-2020**]

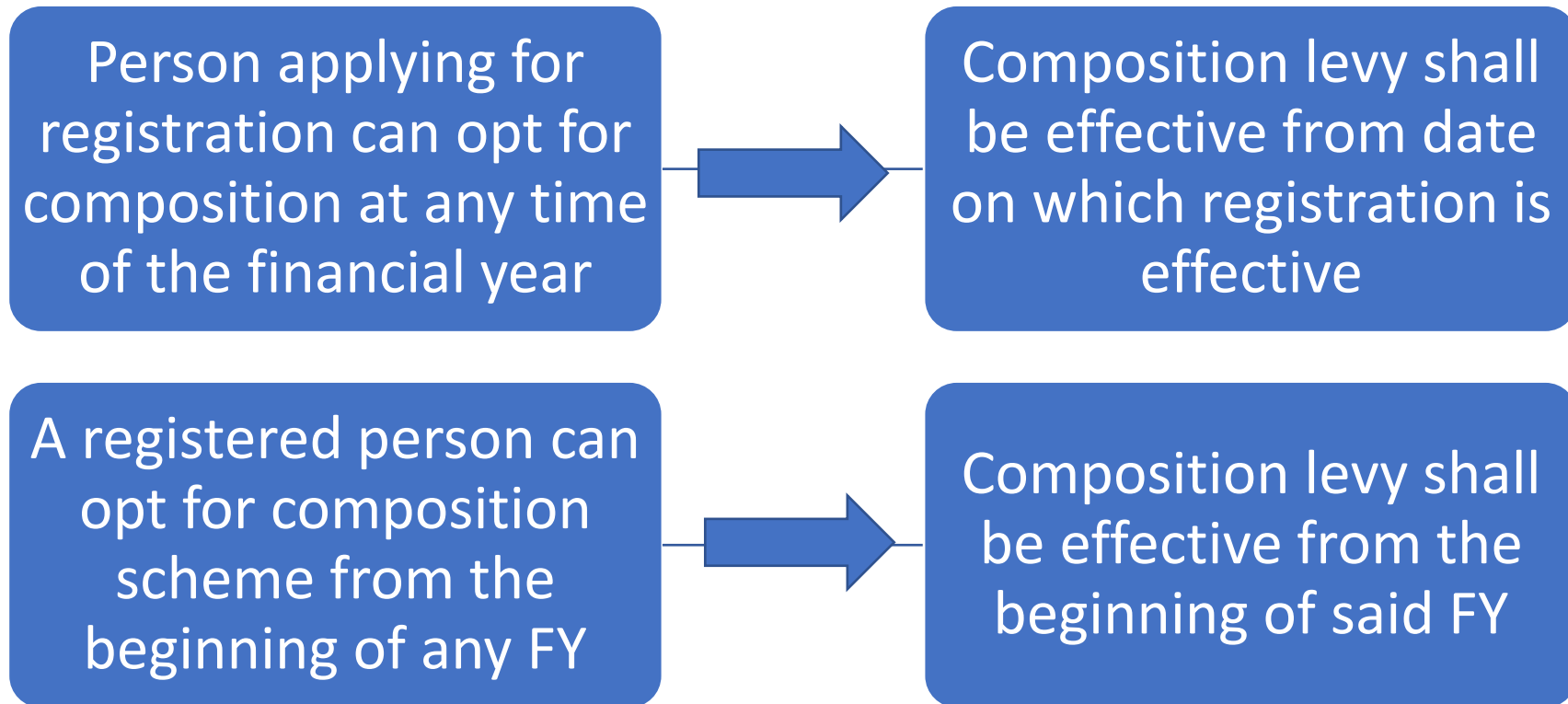
Rule 3(3A) and Rule 3(4) Transitional Provision – thus not discussed here

Rule 3(5) Any intimation under sub-rule (1) or sub-rule (3) or sub-rule (3A) 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.

Effective date for composition levy

Rule 4(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.

Rule 4(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.



Conditions and Restrictions for Composition Levy

Rule 5(1) The person exercising the option to pay tax under sec 10 shall comply with the following conditions, namely:-

- a) he is neither a casual taxable person (CTP) nor a non-resident taxable person (NRTP);
- b) Transitional Provision – thus not discussed here**
- 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;

Conditions and Restrictions for Composition Levy

e) he was not engaged in the **manufacture** of goods as notified ([NN 14/2019-CT dt 7-3-2019](#)) under clause (e) of sub-section (2) of section 10, during the **preceding** financial year –

S. No.	Tariff item, sub-heading, heading or Chapter	Description
1.	2105 00 00	Ice cream and other edible ice, whether or not containing cocoa.
2.	2106 90 20	Pan Masala
2A.	2202 10 10	Aerated Water (NN 43/2019-CT dt 30-9-2019)
3.	24	All goods, i.e. Tobacco and manufactured tobacco substitutes.
4.	6815	Fly ash bricks; fly-ash aggregates; Fly ash blocks (NN 4/2022-CT w.e.f. 1-4-2022, as amended by NN 16/22-CT, w.e.f. 18-7-22)
5.	6901 00 10	Bricks of fossil meals or similar siliceous earths (NN 4/2022-CT w.e.f. 1-4-2022)
6.	6904 10 00	Building bricks (NN 4/2022-CT w.e.f. 1-4-2022)
7.	6905 10 00	Earthen or roofing tiles (NN 4/2022-CT w.e.f. 1-4-2022)

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.

Rule 5(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.

Validity of Composition Levy (Sec 10(3) read with rule 6)

Rule 6(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.

Rule 6(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 **7 days of the occurrence of such event**.

Rule 6(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.

Rule 6(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 **15 days of the receipt of such notice** as to why the option to pay tax under section 10 shall not be denied.

Validity of Composition Levy (Sec 10(3) read with rule 6)

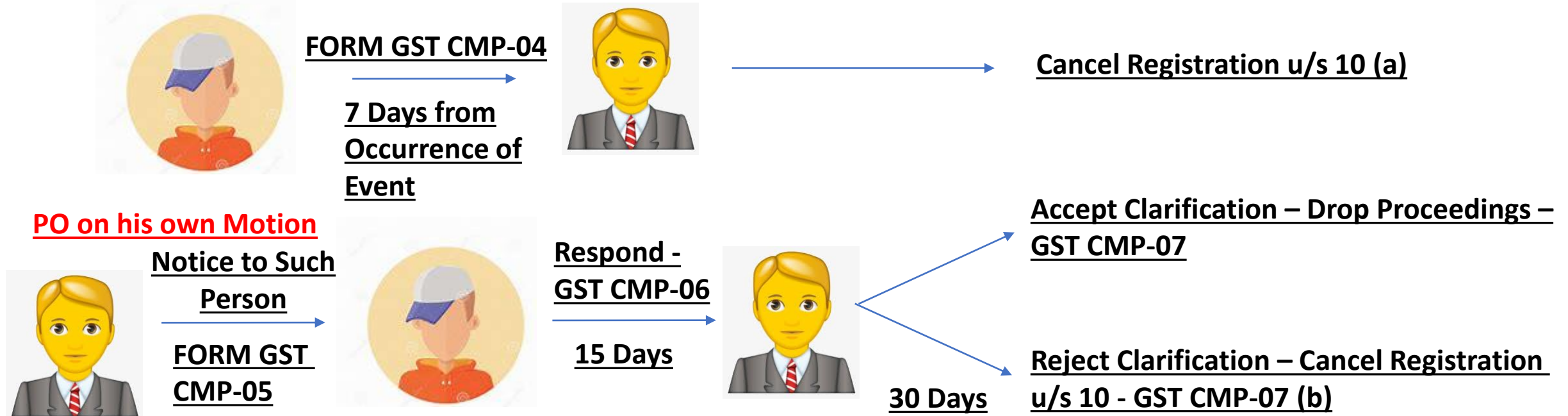
Rule 6(5) Upon receipt of the reply to the show cause notice issued under sub-rule (4) from the registered person in **FORM GST CMP-06**, the proper officer shall issue an order in **FORM GST CMP-07** within a period of **30 days** of the receipt of such reply, either accepting the reply, or denying 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.

Rule 6(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 **30 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.

Rule 6(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.

Validity of Composition Levy (Sec 10(3) read with rule 6)

Application filed by Registered Person paying tax under section 10 when he ceases to satisfy any of the conditions / Application filed by Registered Person paying tax under section 10 when he intends to opt out of composition scheme



In scenario (a) or (b) above, statement in **FORM GST ITC-01** is to be filed 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 **30 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.

Rule 6(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 UT, shall be deemed to be an intimation in respect of all other places of business registered on the same PAN

Validity of Composition Levy (Sec 10(3) read with rule 6)

Circular No. 77/51/2018-GST dt 31-12-2018

SCENARIO

Does not satisfies the conditions mentioned in section 10 of the CGST Act, 2017 and the CGST Rules
OR
Taxpayer who intends to withdraw from the said scheme

Denial of option to the taxpayer to pay tax under the said scheme where he has contravened the provisions of the CGST Act or the CGST Rules.

CLARIFICATION

It is clarified that in a case where the taxpayer has sought withdrawal from the composition scheme, the effective date shall be the date indicated by him in his intimation/application filed in FORM GST CMP-04 but such date may not be prior to the commencement of the financial year in which such intimation/application for withdrawal is being filed.

If at any stage it is found that he has contravened any of the provisions of the CGST Act or the CGST Rules, action may be initiated for recovery of tax, interest and penalty.

The effective date of such denial shall be from a date, including any retrospective date as may be determined by tax authorities, but shall not be prior to the date of contravention of the provisions of the CGST Act or the CGST Rules. In such cases, as provided under sub-section (5) of section 10 of the CGST Act, the proceedings would have to be initiated under the provisions of section 73 or section 74 of the CGST Act for determination of tax, interest and penalty for the period starting from the date of contravention of provisions till the date of issue of order in FORM GST CMP-07. It is also clarified that the registered person shall be liable to pay tax under section 9 of the CGST Act from the date of issue of the order in FORM GST CMP-07.

Composition Scheme for Service Providers (Sec 10(2A)) (Inserted vide FA (No.2), w.e.f. 1-1-2020)

Sec 10(2A) 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, not eligible to opt to pay tax under sub-section (1) and sub-section (2),
- whose aggregate turnover in the preceding financial year did **not exceed ₹ 50 lakh**, may opt to pay, in lieu of the tax payable by him under sub-section (1) of section 9, an amount of tax calculated at such rate as may be prescribed, but
- **not exceeding 3%** of the turnover in State or turnover in Union territory, if he is **not**—
 - (a) engaged in making any supply of goods or services which are not leviable to tax under this Act;
 - (b) engaged in making any inter-State outward supplies of goods or services;
 - (c) engaged in making any supply of [~~goods or~~] services through an electronic commerce operator who is required to collect tax at source under section 52; * Word goods omitted vide The Finance Act, 2023, w.e.f. 1-10-2023. With this amendment, good suppliers through ECO are also eligible to opt for composition levy.
 - (d) a manufacturer of such goods or supplier of such services as may be notified by the Government on the recommendations of the Council; and
 - (e) a casual taxable person (CTP) or a non-resident taxable person (NRTP)

Provided that where more than one registered person 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 this sub-section unless all such registered persons opt to pay tax under this sub-section.”;

Composition Levy (Sec 10(3), Sec 10(4), Sec 10(5))

Sec 10(3) The option availed of by a registered person under sub-section (1) or sub-section (2A), as the case may be shall lapse with effect from the day on which his aggregate turnover during a financial year exceeds the limit specified under sub-section (1) or sub-section (2A), as the case may be.

Sec 10(4) A taxable person to whom the provisions of sub-section (1) or sub-section (2A), as the case may be 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.

Sec 10(5) If the proper officer has reasons to believe that a taxable person has paid tax under sub-section (1) or sub-section (2A), as the case may be 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.

[Explanation 1.—For the purposes of computing aggregate turnover of a person for determining his eligibility to pay tax under this section, the expression “aggregate turnover” shall include the value of supplies made by such person from the 1st day of April of a financial year up to the date when he becomes liable for registration under this Act, BUT shall not include the value of exempt supply of services provided by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount.]*

(* Words in brackets have been inserted vide Finance (No. 2) Act, 2019, w.e.f. 1-1-2020)

Composition Levy (Sec 10(3), Sec 10(4), Sec 10(5))

*[Explanation 2.—For the purposes of determining the tax payable by a person under this section, the expression “turnover in State or turnover in Union territory” **shall not include** the value of following supplies, namely:—*

- (i) supplies from the 1st day of April of a financial year up to the date when such person becomes liable for registration under this Act; and*
- (ii) exempt supply of services provided by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount.’]**

(* Words in brackets have been inserted vide Finance (No. 2) Act, 2019, w.e.f. 1-1-2020)