GSTZONE

Composition Scheme

Simplicity, at a commercial price

The complete guide, plus all 6 sections and rules

Text sourced from the Central Board of Indirect Taxes and Customs

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A Khemchandani Finance initiative

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Composition lets a small business pay a flat percentage of turnover instead of running the full GST machinery. A trader or manufacturer pays 1%, a restaurant 5%, and other service providers 6% under a separate scheme. Filing drops to quarterly, and rate-by-rate tracking disappears.

What you give up is the credit chain, in both directions. You cannot claim input tax credit on your own purchases, and - more importantly - you cannot pass any credit to your customers, because you issue a bill of supply rather than a tax invoice.

There is also a hard geographic limit: composition dealers cannot make inter-state outward supplies at all. Not 'at a different rate' - not at all. A single inter-state sale can cost you the scheme.

A worked example

When 1% turns out to cost more than 18%

Trader under composition, turnover ₹80 lakh	**Pays 1% = ₹80,000**	Simple, quarterly filing
A B2B buyer worth ₹30 lakh a year	**Gets zero credit on purchases**	Effectively 18% more expensive
Buyer moves to a regular-scheme competitor	**₹30 lakh of revenue lost**	To save ₹80,000 of tax admin

> **The point:** Composition saved real money on tax and paperwork, and cost far more in lost business. For anyone selling B2B, that trade is usually the wrong way round.

The mistakes that cost people money

- Making one accidental inter-state sale. It puts your eligibility for the whole scheme at risk, not just that transaction.
- Issuing a tax invoice out of habit. Composition dealers must issue a bill of supply carrying the prescribed declaration.
- Missing the CMP-02 window. The choice must be made before the financial year starts - generally by 31 March.

What this guide covers

Every provision, explained

RULE 3 · CGST RULES, 2017

Intimation for composition levy

How you opt into composition: an existing registrant files CMP-02 before the financial year begins, a new applicant opts in Part B of REG-01 at registration, and stock details go in ITC-03. One intimation covers every GSTIN on the same PAN.

RULE 4 · CGST RULES, 2017

Effective date for composition levy

The composition option takes effect from the start of the financial year for which CMP-02 was filed, or from the date of registration where it was chosen in the registration application itself.

RULE 5 · CGST RULES, 2017

Conditions and restrictions for composition levy

Conditions for staying in composition: not a casual or non-resident taxable person, no inter-State outward supplies, no supply through an e-commerce operator required to collect TCS (relaxed for goods from 1 October 2023), no exempt or non-GST goods dealing beyond what section 10 allows, tax on reverse-charge inward supplies paid at normal rates, and every invoice marked 'composition taxable person, not eligible to collect tax on supplies'.

RULE 6 · CGST RULES, 2017

Validity of composition levy

The composition option stays valid only while the conditions hold. The moment a condition fails you must pay normal tax from that day, file CMP-04 within seven days, and file ITC-01 within thirty days to claim the credit on your stock; the officer can also deny the option with a CMP-05 notice and CMP-07 order.

RULE 7 · CGST RULES, 2017

Rate of tax of the composition levy

The composition rates: 0.5 per cent CGST for a manufacturer, 2.5 per cent for a restaurant, 0.5 per cent on taxable turnover for a trader, and 3 per cent for the section 10(2A) service scheme - each doubled once SGST is added, giving 1, 5, 1 and 6 per cent.

SECTION 10 · CGST ACT, 2017

Composition levy

A small taxpayer with previous-year turnover up to Rs 1.5 crore can opt for the composition scheme and pay a flat tax - 1% for manufacturers and traders, 5% for restaurants - instead of normal GST, without collecting tax from customers or taking input tax credit. Service providers/mixed suppliers up to Rs 50 lakh can use the 6% scheme under s.10(2A). Composition dealers cannot make inter-State outward supplies, but since 01-10-2023 they may sell goods through e-commerce operators.

- The Rs 1.5 crore limit is Rs 75 lakh for the special category States listed in the notification - check the State before quoting the figure.
- A goods composition dealer may supply services up to ten per cent of turnover or Rs 5 lakh, whichever is HIGHER; exceeding that throws him out of the scheme from that day.
- Since 01-10-2023 a composition dealer may sell GOODS through an e-commerce operator (Finance (No.8) Act 2023); services through an ECO are still barred.
- He cannot make inter-State outward supplies, cannot collect tax, cannot take credit, and must mark every bill of supply 'composition taxable person, not eligible to collect tax on supplies'.
- Reverse charge still applies at the normal rate on his inward supplies - the composition rate covers his outward supplies only.
- Compliance is CMP-08 quarterly by the 18th and GSTR-4 annually by 30 June; leaving the scheme means CMP-04 within seven days and ITC-01 within thirty days to claim credit on stock.

When you need more than a guide

This document tells you what the law says. It cannot tell you what it means for your specific numbers, your notice, or your year - and that is usually where the money is.

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