

Group of Ministers set up to make GST composition scheme more attractive

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The GST Council, chaired by finance minister Arun Jaitley and consisting of his state counterparts, has constituted a group of ministers or GoM under Assam finance minister Himanta Biswa Sarma to make the composition scheme more attractive and to revisit the goods and services tax rates on restaurants.

Background:

Businesses with turnover of up to Rs 1 crore can opt for the composition scheme and they can pay taxes in the range of 1-5% and file returns quarterly. However, only 15.5 lakh of the total 98 lakh businesses have registered under the GST regime opting for the composition scheme.

Terms of reference:

- The GoM has been tasked with revisiting tax structure of different categories of restaurants with a view to rationalising or reducing the rates. Currently, GST is levied at 12% on non-AC restaurants while it is 18% in case of airconditioned ones.
- The GoM will examine whether the AC restaurants pass on the benefit of cost reduction under GST to consumers and if they don't, whether they should be disallowed input tax credit claims.
- To make the composition scheme more attractive, the GoM will look into whether turnover of exempted goods can be excluded from the total turnover threshold for levying tax under the composition scheme.
- It will also examine whether the scheme can be extended to taxpayers dealing in inter-state supplies of goods and whether the manufacturers opting for it can be given the benefit of input tax credit.

What you need to know about the Composition scheme?

The composition scheme is an alternative method of levy of tax designed for small taxpayers whose turnover is up to Rs 75 lakh — Rs 50 lakh in the case of eight north-eastern states and the hilly state of Himachal Pradesh. The objective behind it is to bring simplicity and reduce the compliance cost for small taxpayers.

- The scheme is optional under which manufacturers other than those of ice cream, pan masala and tobacco products have to pay a 2% tax on their annual turnover. The tax rate is 5% for restaurant services and 1% for traders.
- As per the Central GST Act, businesses are eligible to opt for the composition scheme if a person is not engaged in any inter-state outward supplies of goods and not into making any supply of goods through an electronic commerce operator who is required to collect tax at source.
- While a regular taxpayer has to pay taxes on a monthly basis, a composition supplier is required to file only one return and pay taxes on a quarterly basis. Also, a composition taxpayer is not required to keep detailed records that a normal taxpayer is supposed to maintain.

To be looked in UPSC Paper 2 topic Government policies and interventions for development in various sectors and issues arising out of their design and implementation.