

VAT : Composition Schemes VAT leaflet 106

Q What is a composition scheme?

A In order to relieve some businesses of the need to keep detailed records, the law makes provision for a simpler method of accounting for VAT. The method of calculating how much VAT is due to be paid is also made easier. Such a method is called a composition scheme.

Q Who may join a composition scheme?

A The alternative method of calculating VAT is available to dealers who: · are reselling goods at retail. · run a restaurant, eating house, club, hotel (other than star hotels), refreshment rooms or boarding establishment, · are caterers and serve food with non-alcoholic drinks · run bakeries · are dealers in second hand passenger motor vehicles · are engaged in executing works contracts.

Q Please note that if you are involved in works contract, leaflet MVAT 109 provides full details about the composition scheme available for you.

A A composition scheme is not available to: · manufacturers · importers · dealers who purchase any goods from a registered dealer on high seas basis. · dealers who sell in retail Foreign Liquor and Country Liquor. · dealers who sell in retail Drugs covered by Entry C-29 · dealers who sell in retail notified Motor Spirits

Q What are the advantages of joining the scheme?

A That will be for you to decide. Much will depend on how the new value added tax will affect your business. But it essentially saves a lot of labour of keeping transactions wise sales side records including tax recovery. It simplifies calculations of tax liability of the dealer.

Q What are the disadvantages of joining the scheme?

A Again, it will be a matter for you to decide based on the nature of your business. But, you will not be able to claim set-off of any VAT you may pay on your business purchases, nor will you be able to issue tax invoices to your customers. For dealers who are engaged in executing works contracts or dealers in second hand passenger motor vehicles and opting for composition option, special provisions for claim of set off and tax invoice would apply. (Refer leaflet MVAT 109 and MVAT 108)

Q How is retail selling defined?

A In order to qualify as a retailer, at least 90% of your sales must be made to people who are not dealers.

Q Is there a limit to the size of the business that can apply for a composition system?

A a) For Composition Scheme as per sec 42(3) to works contractor, there is no limit of turnover. b) For retailers the limit is Rs.50 Lac turnover of previous year. c) For restaurant below 4 star, no limit of turnover. d) For bakers and second hand car dealers no turnover limit. Please refer to the relevant notification No. VAT-1505/CR-105/Taxation-1 Dt. 01.06.2005

Q How do I join a composition scheme?

A If you are a dealer applying for a new VAT registration, you can opt to join the composition scheme by indicating this at question no. 7 of the VAT registration application form 101. If you are already registered for VAT, you must opt to join the composition scheme. You can do this using form 107 which is available from your Sales Tax Office. You should return the duly completed form 107 to the Sales Tax Office.

Q What VAT return form do I use to pay VAT under a composition scheme?

A There are different return forms for different composition schemes and you must use the correct one as follows: Type of Dealer VAT Return Form Number Retailer 204 Restaurant, eating house, etc 205 Bakery 206 Second-hand car dealer 207 How often do I file a return? If you are a retailer, you will make a return for a six month period. The periods are 1st April to 30th September and 1st October to 31st March each year. For other composition dealers, you will file returns as follows: · If your total net tax liability including CST, BST and VAT in the previous year was more than Rs. 1 lakh, you must file your returns monthly · If your total net tax liability including CST, BST and VAT in the previous year exceeded Rs. 12,000/- but was not more than Rs. 1 lakh, you should file your returns quarterly for the quarters ending on 30th June, 30th September, 31st December and 31st March. · If your total net tax liability including CST, BST and VAT in the previous year was Rs.12,000 or less, you should file your returns every six months for the periods 1st April to 30th September and 1st October to 31st March.

Q What is the deadline for filing returns?

A Your returns for the periods ending 31st December and 31st January must be filed by the 20th day of the following month, that is 20th January and 20th February respectively. Your returns for all other periods must be filed by the 25th day of the following month. For example, your return for the period ending 30th September must be filed by the following 25th October

Q Can I switch from normal VAT to a composition scheme or vice versa?

A Yes, if otherwise eligible. But you must notify your local Sales Tax Office of the change in writing the change to or from normal VAT accounting will only be effective from the beginning of the next financial year, that is the following 1st April. Until that time, you must

continue to account for VAT under the normal VAT or composition scheme as the case may be