


# GST Composition Scheme (2026): Turnover Limit, Rate, CMP-02 and Returns

## Description

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**Quick summary**

- A trader or manufacturer with turnover up to Rs 1.5 crore (Rs 75 lakh in the North-Eastern states and Himachal Pradesh) can opt for the Composition Scheme and pay tax at a flat 1 percent of turnover instead of the regular rate.
- A composition dealer cannot claim input tax credit, cannot make inter-state supplies, and cannot issue a tax invoice; a Bill of Supply is used instead.
- The scheme is opted for every year on the GST Portal in FORM GST CMP-02, before the financial year begins.
- Tax is paid quarterly in FORM GST CMP-08, and the annual return GSTR-4 is due by 30th June of the following financial year.
- A separate scheme at 6 percent lets service providers (and mixed suppliers) with turnover up to Rs 50 lakh opt in under section 10(2A).

The Composition Scheme under GST exists so that a small trader, manufacturer or restaurant does not have to deal with the full set of GST compliance: a tax invoice for every sale, input tax credit reconciliation, and a monthly return. In exchange for that simplicity, a composition dealer pays a flat, low rate of tax on total turnover and gives up input tax credit.

New to GST terms such as “input tax credit” or “tax invoice”? See the technical terms explained in simple words further down.

## Who can opt for the Composition Scheme

Under Section 10 of the CGST Act, 2017, confirmed on the CBIC Tax Information Portal, a registered person can opt for the scheme if their aggregate turnover in the preceding financial year does not exceed:

| Category | Turnover limit |
|---|---|

| | |
|---|---|
| General category states | Rs 1.5 crore |
| North-Eastern states and Himachal Pradesh | Rs 75 lakh |
| Service providers and mixed suppliers (section 10(2A)) | Rs 50 lakh |

Aggregate turnover is computed across all businesses registered under the same PAN, not for one GSTIN alone.

A manufacturer or trader who opts under section 10(1) can also supply services up to 10 percent of turnover, or Rs 5 lakh, whichever is higher, without losing eligibility.

## Who cannot opt for the Composition Scheme

- A manufacturer of ice cream, pan masala or tobacco (goods notified as ineligible).
- A person making inter-state outward supplies.
- A casual taxable person or a non-resident taxable person.
- A person supplying goods through an e-commerce operator who is required to collect tax at source under section 52.
- A supplier of goods that are not taxable under GST, such as alcohol for human consumption.
- Any other class of person or goods notified by the Government on the recommendation of the GST Council.

## Conditions a composition dealer must follow

- No input tax credit can be claimed on inward supplies.
- Tax must be paid at normal rates, not the composition rate, on supplies received under the Reverse Charge Mechanism.
- Where a taxable person runs more than one business vertical under the same PAN, every vertical must be registered under the scheme together, or the option is not available.
- The words “composition taxable person, not eligible to collect tax on supplies” must be displayed on every notice or signboard at the place of business, and at the top of every Bill of Supply.

## How to opt in: FORM GST CMP-02

A taxpayer already registered as a regular dealer opts in by filing **FORM GST CMP-02** online on the GST Portal, under Services, then Registration, then Application to Opt for Composition Levy. This intimation is filed once at the start of the financial year for which the option is to apply, and stays in force for later years unless the dealer opts out or becomes ineligible.

A person applying for a fresh GST registration can choose the composition option at the time of registration itself, without filing CMP-02 separately.

## Rate of tax under the Composition Scheme

Section 10 of the CGST Act caps the composition rate; the actual rate charged is prescribed by **Rule 7 of the CGST Rules, 2017**, verified directly on the CBIC Tax Information Portal:

| Type of business | CGST | SGST | Total |
|---|---|---|---|
| Manufacturers and traders of goods | 0.5% | 0.5% | 1.0% |
| Restaurants not serving alcohol | 2.5% | 2.5% | 5.0% |
| Service providers and mixed suppliers (section 10(2A)) | 3.0% | 3.0% | 6.0% |

The tax is calculated on total turnover of the quarter, not on a value-added or margin basis, and is paid by the dealer out of pocket - it cannot be collected from the customer.

## How a composition dealer bills a customer

A composition dealer cannot issue a tax invoice, because GST is never charged to the customer. Instead, a **Bill of Supply** is issued, carrying the words “composition taxable person, not eligible to collect tax on supplies” at the top.

## Returns and payment

| Form | What it is | Due date |
|---|---|---|
| FORM GST CMP-08 | Quarterly statement-cum-payment of tax | 18th of the month after the quarter ends |
| FORM GSTR-4 | Annual return | 30th June following the end of the financial year |

A composition dealer is not required to maintain the detailed records that a regular taxpayer must keep, and does not file the monthly GSTR-1/GSTR-3B cycle.

## Opting out

A dealer who crosses the turnover limit, starts an ineligible activity, or simply wants to move back to regular GST must file **FORM GST CMP-04** on the GST Portal, intimating withdrawal from the scheme, after which normal GST provisions (tax invoices, input tax credit, monthly returns) apply from the date of withdrawal.

## Advantages and disadvantages

**Advantages**
– Lower compliance: one annual return instead of monthly filings, and simpler record-keeping.
– A fixed, low rate of tax, which keeps cash flow predictable for a small business.
– No need to track input tax credit on every purchase.

**Disadvantages**
– No input tax credit on purchases, which can raise the effective cost of inputs.
– No inter-state sales and no sales through an e-commerce operator that collects tax at source.

– Customers who are themselves GST-registered cannot claim any credit on their purchase from a composition dealer, which can make the dealer a less attractive supplier to a GST-registered buyer.

## How CSM & Co LLP can help

Choosing between the Composition Scheme and regular GST registration depends on your customer mix, margins and growth plans, not turnover alone. Please reach out to our team and we will be happy to assist with the comparison, the CMP-02 filing, and the quarterly and annual compliance that follows.

## Technical terms explained in simple words

| Term | What it means |
|---|---|
| Aggregate turnover | The total value of all taxable, exempt and export supplies made under one PAN, across all its GST registrations, counted together. |
| Input tax credit | The GST a business already paid on its purchases, which it can normally subtract from the GST it collects on its sales. A composition dealer gives this up. |
| Tax invoice | The GST-charging bill a regular dealer issues, showing the tax separately so the buyer can claim credit. |
| Bill of Supply | The bill a composition dealer issues instead of a tax invoice, since no GST is shown or charged to the buyer. |
| Reverse Charge Mechanism | A situation where the buyer, not the seller, has to pay GST directly to the Government on a purchase. |
| FORM GST CMP-02 | The online form used to opt into the Composition Scheme for a financial year. |
| FORM GST CMP-04 | The online form used to opt out of the Composition Scheme. |
| FORM GST CMP-08 | The quarterly form on which a composition dealer pays its tax. |
| GSTR-4 | The annual return a composition dealer files summing up the year’s turnover and tax paid. |

## Frequently asked questions

### Who can opt for the GST Composition Scheme?

A trader, manufacturer or restaurant (not serving alcohol) whose aggregate turnover in the preceding financial year was up to Rs 1.5 crore (Rs 75 lakh in the North-Eastern states and Himachal Pradesh), and

who meets the conditions under section 10 of the CGST Act.

### Who cannot opt for the Composition Scheme?

A manufacturer of ice cream, pan masala or tobacco, a person making inter-state outward supplies or supplying goods through an e-commerce operator required to collect tax at source, a casual taxable person, a non-resident taxable person, and any person or goods notified by the Government on the Council's recommendation.

### What is the GST rate under the Composition Scheme?

1 percent of turnover for manufacturers and traders of goods, 5 percent for restaurants not serving alcohol, and 6 percent for other eligible service providers and mixed suppliers opting under section 10(2A).

### How does a taxpayer opt for the scheme?

By filing FORM GST CMP-02 online on the GST Portal, under Services, then Registration, then Application to Opt for Composition Levy, before the start of the financial year for which the option is to apply.

### Can a composition dealer claim input tax credit or issue a tax invoice?

No. A composition dealer cannot claim input tax credit on purchases and cannot charge GST to customers, so a Bill of Supply is issued instead of a tax invoice, marked "composition taxable person, not eligible to collect tax on supplies".

### What returns does a composition dealer file?

A quarterly tax payment in FORM GST CMP-08, due by the 18th of the month after the quarter ends, and an annual return in FORM GSTR-4, due by 30th June following the end of the financial year.

## Official sources

- CBIC Tax Information Portal – Section 10, CGST Act, 2017 (Composition levy)
- CBIC Tax Information Portal – Rule 7, CGST Rules, 2017 (Rate of tax of the composition levy)
- GST Portal
- Central Board of Indirect Taxes and Customs

## Related reading

- Switching Into or Out of the GST Composition Scheme (2026): ITC-03, ITC-01 and Rule 44

# Disclaimer

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**Date**
17/11/2026
**Date Created**
15/09/2026
**Author**
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