

## **GST composition scheme may come under reverse charge mechanism to curb evasion**

Worried by apparent goods and services tax (GST) evasion, India is likely to bring the composition scheme under the reverse charge mechanism right away. The government will move an amendment to the GST law in the budget session to introduce an enabling provision to prescribe the mechanism where it deems necessary. The GST Council has already approved about 40 changes to the law.

The law will be changed to introduce an enabling provision for you to bring in reverse charge mechanism wherever you want," said a person aware of deliberations in the GST Council. "The thinking is that at least in the case of composition scheme the reverse charge should be done."

Under the reverse charge mechanism, a person receiving goods or services collects the GST levied and deposits the tax with the government. The provision, which is suspended for now, was only meant for an unregistered entity supplying goods or services or both. In such a case, those taking the goods or services would levy and collect the tax on a reverse charge basis, ensuring that it's paid.

The government feels that the law needs to be amended to allow for the imposition of reverse charges wherever it feels there may be significant evasion. "It will not be compulsory but where it is needed it will be done," the person said, adding it may be implemented for the composition scheme to begin with. "This will create a disincentive for remaining in the composition scheme and they will move to the regular scheme."

Under the composition scheme, those with turnover of up to Rs 1 crore can pay 1-5% of that as tax and need not file detailed GST returns. This is set to be raised to Rs 1.5 crore. The rate of tax is 1% for traders and manufacturers and 5% for restaurants. The council has expressed concern that collections under the composition scheme were low

Large-scale evasion is suspected as the tax paid under the composition scheme is just Rs 300 crore so far by more than 1.6 million businesses that have registered for it. If businesses are claiming turnover is less than Rs 20 lakh, why have they sought registration at all, the person asked. They would be exempt anyway.

"The government perhaps believes that in the absence of the reverse charge and with the increase in composition limit, it is being used as a route to evade tax," said Pratik Jain, indirect taxes leader, PwC. "Also, the tax collected from composition dealers is very low with many of them declaring less than `20 lakh annual turnover. Reverse charge will help the government to monitor the purchases of composition dealers and help plug the leakage."

*(Economic Times)*