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GST Composition Scheme: A catalyst for growth in Delhi NCR's FMCG Industry

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Abstract

India implemented the Goods and Services Tax (GST) Composition Scheme to make tax compliance easier for small firms. This study evaluates the efficacy of GST Composition Scheme in the Delhi National Capital Region (NCR) in relation to fast-moving consumer goods (FMCG) industry. Implementing and evaluating the effects of this tax scheme on the FMCG industry, which is one of the main drivers of the Indian economy.

This study utilizes both qualitative and quantitative research approaches to investigate the advantages and difficulties that FMCG companies encounter while implementing the GST Composition Scheme. It examines how the strategy will affect the competitiveness, costs associated with compliance, and general business operations of FMCG companies in Delhi NCR. The study also looks into the scheme's impressions and experiences from FMCG entrepreneurs and industry insiders.

The results indicate that although the GST Composition Scheme has some benefits, including lessened compliance burdens and easier tax computations, there are significant drawbacks, like non availability of input tax credit and narrow eligibility requirements. Furthermore, the scheme's efficacy varies based on elements including the size of the business organization, the type of operations, and compliance capabilities.

The analysis ends with suggestions for legislators on how to enhance the GST Composition Scheme's efficacy in Delhi NCR's FMCG industry. The purpose of these proposals is to improve the scheme's ability to support the expansion and competitiveness of FMCG companies in the area while also addressing the issues that have been highlighted.

Key words: Goods & Service Tax, GST Composition Scheme, FMCG Sector, National Capital Region, Impact of Composition Scheme

INTRODUCTIONOF GST COMPOSITION SCHEME

The Goods and Services Tax (GST) Composition Scheme was introduced in India with the aim of simplifying tax compliance for small businesses while ensuring the broader tax base and revenue neutrality. The Fast Moving Consumer Goods (FMCG) sector is one of the most important industries in the Indian economy, contributing significantly to GDP and employment generation. It makes sense to investigate how well the GST Composition Scheme is working in this industry, especially in the Delhi National Capital Region (NCR).

Delhi NCR provides a special framework for assessing the scheme's effectiveness because it is a center of consumer demand and economic activity. The purpose of this research report is to evaluate the efficacy of GST Composition Scheme in the Delhi NCR, FMCG industry. It attempts to evaluate the program's effectiveness in achieving its goals, the difficulties FMCG companies encounter while operating under it and the ramifications for companies and the government.

FMCG industry operating in Delhi NCR deals in broad variety of goods, such as food & drink, personal hygiene items, household necessities, medicines, stationaries, toiletries, consumer electronics and many more. Due to the diverse range of products and customer preferences offered by this industry, market sectors may experience significant variations as far as the impact of the GST Composition Scheme is concerned. Policymakers, businesses, and other stakeholders need to understand these nuances to fully leverage the benefits of the scheme and address its shortcomings.

It is common practice to set a threshold limit which no tax can be imposed, leaving very small taxpayers outside the tax net. This is also more convenient administratively because it is impossible to supervise a large number of tiny taxpayers, whose revenues are insignificant relative to the costs required.

Small and medium taxable persons whose aggregate turnover is less than Rs. 20 lakhs are not required to register under GST.

The Scheme of Composition is announced by the government under GST for the benefit and in favor of the small traders, manufacturers and restaurants etc.

For small taxpayers, the composition levy plan is a relatively straightforward, hassle-free compliance method.

It is a voluntarily chosen alternative. The CGST Act of 2017 and the CGST Regulations of 2017 both contain provisions relating to the composition levy under section 10.

Different sectors of Indian economy were greatly impacted by the recent implementation of the Goods and Services Tax (GST). ln order to close the knowledge gap that exist amongst the FMCG entrepreneurs, the current study has been conducted.

(Kapoor, 2018) concluded in his study that India's implementation of GST has brought it closer to the global tax framework. The tax structure is basic, uniform, and neutral to company processes across the country. The tax system is efficient as it reduces collection costs and eliminates economic inefficiencies. This will enhance output, create more job opportunities, boost Indian GDP, and provide a platform for increased national income and revenue. The positive consequences of GST require a neutral and rational design that balances the interests of stakeholders and has full political support for this tax reform.

LITERATURE REVIEW

(Das A., 2023), The study explained the structure of GST and its effects on the Fast Moving Consumer Goods (FMCG) industry in India. The fast-moving consumer goods (FMCG) industry did somewhat better after GST implementation as it eliminated the multiple-tax structure. In terms of contribution to GDP, the industry has grown mostly due to increased public knowledge, improved accessibility, and general shifts in consumer preferences and practices. It's a mixed bag for the FMCG industry. If tax rates remain the same, precise computations of tax and profit are made, and there is greater clarity regarding taxes on promotional activities, GST can be even more beneficial for the expansion of the FMCG industry. The study concluded that the GST replaces indirect taxes traditionally imposed by the federal and state governments of India, and it would affect the whole nation. The FMCG sector is the fourth largest part of the Indian economy, and about half of its sales come from food and drinks. The study looks at the pros and cons of implementing GST and how well it works in other countries that have already put it in place.

(Alie et al., 2019), The study focuses on the structure of the Goods and Services Tax (GST) and its effects on the Fast-Moving Consumer Goods (FMCG) industry in India. The FMCG sector slightly improved when the GST was implemented since it did away with the multiple-tax structure. The study focuses on GST, its rate, origin, utilization of Input Tax credit, registration and composition scheme, its advantages and disadvantages along with its impact on FMCG Sector. The study's secondary data was gathered from a variety of books, blogs, and expert articles published in national and international journals. The authors concluded that FMCG business has seen mixed results from the GST's implementation. Low pricing are the first thing that FMCG businesses like Dabur, HUL, and ITC have begun to pass on as a result of their tax incidence decreasing. Regular adjustments to the GST rate can be very beneficial for certain FMCG companies, but not for others. However, the immediate effects show that the GST has not been successful in lowering the general cost of commodities; in fact, the price of certain goods has climbed significantly relative to the pre-GST period.

(Nandi & Banerjee, 2018) The study focused on small and medium enterprises (SME's) registered under composition scheme of Goods and Service Tax Act. The authors have examined the impact of GST on SMEs registered under the composition scheme and their significant role in Nation‘s development in form of indirect tax environment of the country by crafting new entrepreneurs, generating large employment opportunities, promoting industrialization in rural and backward areas and also by ensuring supply of ancillary units to large industries in the country. The study is analytical in nature and purely based on existing resources published in the form of official publications by different government agencies, journal, magazines, newspapers, etc. The authors also lightened the initiative government has taken from time to time to smoothen the process of complying with GST and remove technicalities in its implementation Though, there still exist a lot of confusions, queries and lack of clarifications on different facets of its implementation but like any other reforms these will be addressed and resolved with the passage of time..

(NM & Bai, 2018), The article highlights the positive aspects of composition assessments, such as the elimination of double taxation loopholes and the lessening of the cascade impact. It also serves as a base for the Direct Tax system and gathers data on how this composition scheme aids in the expansion and improvement of the assessee's business through the regular

GST. At long last, the government's composition plan and rates for assessments have been laid out in detail. The study includes the data acquired from the interviews with Assessees in Shivamogga who pay GST under the Composition Scheme, and a structured questionnaire is employed thereon. The study underlined the scheme's significance for independent business owners. As such, they have selected 100 Assessees in the Shivamogga area who are paying GST via the Composition Scheme in order to collect this data and use it as a springboard for studying the function and performance of the Composition Scheme and its operating method towards Assesses. Thus, a rudimentary effort has been made to appreciate the advantages of the composition scheme for assessees and the critical role it plays in modern economic growth via revenue production.

(Jayashree & Kotnal, 2017) The study explained that India's fast-moving consumer goods (FMCG) industry makes a significant GDP contribution. GST would provide FMCG companies the chance to reevaluate their supply chains and switch to ones that are based on their specific business needs. The paper's main goals are to discuss the Goods and Services Tax and how it affects FMCG. The study employs an exploratory research methodology that draws from a large body of scholarly literature on goods and services tax that has been published in the relevant journals, reports, newspapers, and magazines. The nature of research design is descriptive. For the study, a lot of secondary data that was available was employed. The current production-based tax structure will change to a consumption-based one under the GST. The FMCG industry is the main source of direct and indirect taxes in the economy. The authors also pay close attention to the State Industrial Policy and Excise laws' area-based exemptions, the transition provisions for traded goods, the taxability and valuation of stock transfers, and the taxability of free supplies and discounts. They expressed concern about how the FMCG industry would be affected by the implementation of the Goods and Services Tax.

(Naik & Sudina, 2017), The study stated that the fast-moving consumer goods (FMCG) market is India's fourth largest sector. The FMCG market in India is expected to expand from $30 billion in 2011 to $74 billion in 2018. Growing awareness, better access, and changing lifestyles have been the primary growth factors in the market. The sector is expected to witness a substantial impact if the Goods and Services Tax (GST) Bill is implemented, as corporations set up warehouses across states in an effort to create a more tax efficient structure. Even in the fast-moving consumer goods (FMCG) industry, the mere efficiency of goods and services tax (GST), provided the design is such that the credits do not stick.

The study further covers the effectiveness of GST in FMCG sector in the countries already implemented it. GST transition is not just a transition of tax; it impacts every aspect of the business operations and therefore it requires a ‘whole of business’ approach to ensure a smooth transition.

(Vasanthagopal, 2011) has explained that according to the report, the Central Government of India has tasked Dr. Vijay Kelkar, Chairman of the 13th Finance Commission, with proposing a reasonable, scientific, and modern unified taxation structure for the implementation of the Goods and Services Tax (GST). The current taxes system is described as laborious, confusing, and hostile. The Central government is dedicated to implementing a faultless GST to ensure the Indian economy's survival in the face of increased international competition.

This study discusses the biggest leap in the indirect taxation system and the implications for economic change. The CENVAT and State VAT systems are incomplete, and producers/traders may not be able to benefit from comprehensive input tax and service tax set-offs. It is critical to evaluate the good effects of GST on many development areas such as agriculture, manufacturing, MSME, housing, poverty reduction, employment, price level, EXIM trade, GDP, government income, and so on. Furthermore, numerous levies in the state VAT system have not been incorporated into the VAT, leaving the cascading effect of the VAT load on goods and services unrecorded.

OBJECTIVE OF THE STUDY

The Objectives of the study are as follows-

1. To identify the operational difficulties experienced by FMCG companies operating under the composition scheme.
2. To examine the competitive ness, tax incidence and compliance trend of GST composition scheme related to FMCG sector.
3. To know the impact of GST composition scheme on government revenue.
4. To examine the simplicity factors of GST Composition scheme as far as ease of doing business is concerned.

This research aims to critically evaluate the effectiveness of the GST composition scheme in the FMCG sector of Delhi NCR and provide the insights that can inform policy decisions makers about improvised implementation strategies resulting in the growth and development of the FMCG industry.

RESEARCH METHODOLOGY

This study is descriptive in nature and it used the exploratory technique. The secondary sources used to collect the study's data including journals and articles that were printed both offline and online in a variety of newspapers and websites.

OBJECTIVE WISE ANALYSIS

The GST and composition scheme was initially adopted by the industries due to its effectiveness and lower compliance compared to the regular scheme. However, as time has gone on, the number of tax payers who have chosen the tax scheme has decreased from the beginning to the end.

Objective mapped: To identify the operational difficulties experienced by FMCG Companies operating under the composition scheme.(Objective 1)

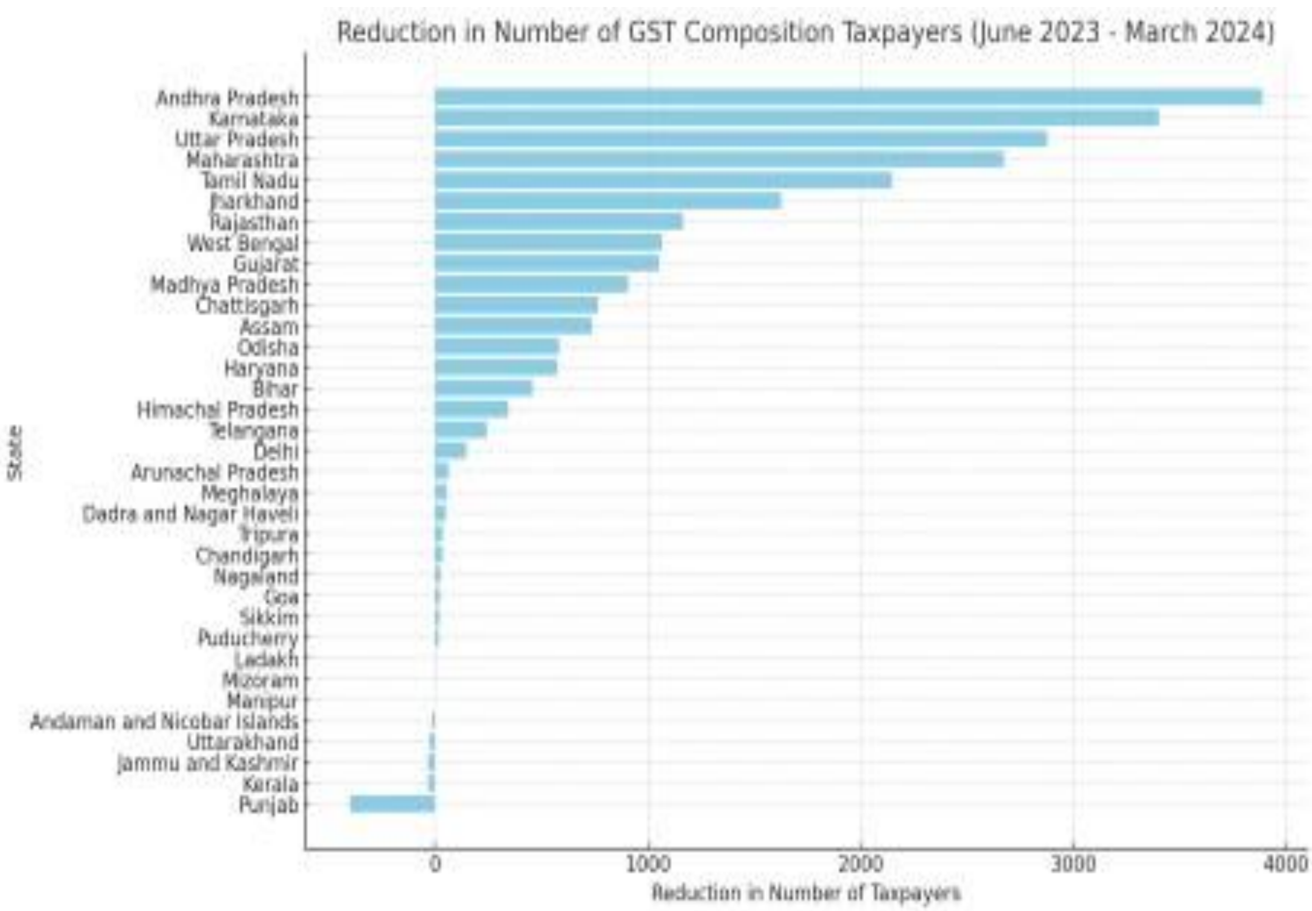
Table No. 1: State wise registration under GST Composition Scheme and number of Active Composition Taxpayers under the scheme.

State Code	State Name	Composition Taxpayers as on 30.06.2023	Composition Taxpayers as on 31.03.2024	Reduction in number of composition taxpayers over a period of 9 months
1	Andhra Pradesh	93698	89,810	-3,888
2	Karnataka	107054	103,651	-3,403
3	Uttar Pradesh	325741	322,863	-2,878
4	Maharashtra	121920	119,245	-2,675
5	Tamil Nadu	66278	64,129	-2,149
6	Jharkhand	16940	15,316	-1,624
7	Rajasthan	128787	127,622	-1,165
8	West Bengal	55390	54,324	-1,066
9	Gujarat	94618	93,568	-1,050
10	Madhya Pradesh	51741	50,834	-907
11	Chattisgarh	33712	32,948	-764
12	Assam	35535	34,799	-736
13	Odisha	27487	26,906	-581
14	Haryana	14862	14,287	-575
15	Bihar	108309	107,852	-457
16	Himachal Pradesh	16765	16,421	-344
17	Telangana	60631	60,389	-242
18	Delhi	15967	15,822	-145
19	Arunachal Pradesh	2169	2,107	-62
20	Meghalaya	2197	2,142	-55
21	Dadra and Nagar Haveli	618	568	-50
22	Tripura	2918	2,884	-34
23	Chandigarh	1599	1,566	-33
24	Nagaland	1979	1,955	-24
25	Goa	5254	5,233	-21
26	Sikkim	774	755	-19
27	Puducherry	2470	2,453	-17
28	Ladakh	612	610	-2
29	Mizoram	199	198	-1
30	Center Jurisdiction	0	0	0
31	Daman and Diu	0	0	0
32	Other Territory	0	0	0
33	Lakshadweep	24	25	1
34	Manipur	1555	1,556	1

35	Andaman and Nicobar Islands	854	871	17
36	Uttarakhand	34202	34,229	27
37	Jammu and Kashmir	8641	8,676	35
38	Kerala	51695	51,730	35
39	Punjab	36159	36,559	400
	Grand Total	**1,529,354**	**1,504,903**	**-24,451**

(Source:https://www.gst.gov.in/download/gststatistics)

The above table can be better understood by the below diagram:-



X axis: Reduction in number of Taxpayers
Y axis: Name of States

The data on State Wise Registration and Active taxpayers under the GST Composition Scheme reveals a noteworthy decline in the number of registered dealers across the majority of states. This trend, especially marked in Delhi NCR, underscores a critical perspective on the GST

Composition Scheme's appeal and utility to small taxpayers. The following points encapsulate the primary insights derived from the data:

1. Decline in Registration: A significant reduction in the number of composition taxpayers over a nine-month period from June 2023 to March 2024 suggests a waning interest in the scheme. This pattern is consistent across 29 of the 36 states analyzed, including a marginal decrease in Delhi from 15,967 to 15,822 registrants.

2.Perceived Disadvantages Outweigh Benefits: The decline could be indicative of the scheme's limited attractiveness. Small taxpayers seem reluctant to opt for this scheme primarily because it necessitates forfeiting the benefit of Input Tax Credit (ITC). For many, the ability to claim ITC outweighs the benefits offered by the composition scheme, such as reduced tax rates and simpler compliance measures.

3.Tax Compliance and Administrative Formalities: Despite the scheme's intent to simplify tax compliance, the persisting administrative formalities appear inadequate in offsetting the drawbacks of forfeiting ITC. This aspect might deter small taxpayers who could otherwise benefit from simpler compliance under the scheme.

4.Economic Implications and Business Expansion: The data may also suggest a positive economic shift where small dealers are expanding their businesses, moving beyond the turnover thresholds of the composition scheme. This expansion is indicative of a dynamic business environment where the constraints of the composition scheme are less appealing compared to the benefits of the regular tax regime.

5. Regional Trends and Exceptions: While the general trend indicates a decline, it is notable that some states like Uttarakhand, Jammu and Kashmir, Kerala, Andaman& Nicobar Islands and Punjab show a slight increase in registrations. This regional variation could be due to specific local economic conditions or the nature of businesses predominant in these areas.

The overarching trend of declining registrations under the GST Composition Scheme across most states, including Delhi NCR, reflects a broader disinterest among small taxpayers, potentially due to the restrictive aspects of the scheme and the allure of benefits available under the regular GST regime. This trend could be seen as an indicator of economic growth and expansion among small businesses, willing to comply with more complex formalities for greater benefits.

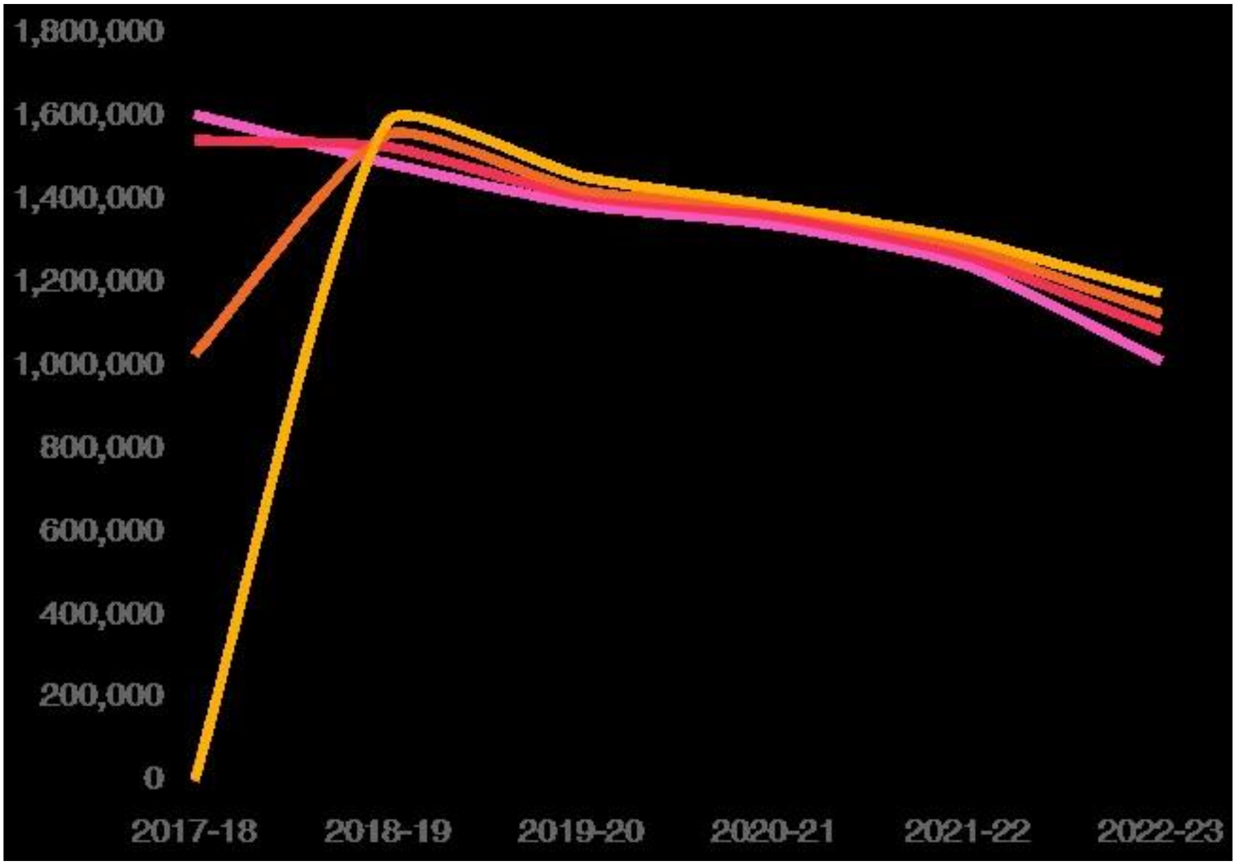
Objective mapped: To examine the competitive ness, tax incidence and compliance trend of GST composition scheme related to FMCG sector. (Objective 2)

Table No. 2
Composition Taxpayers: Returns Trends*

Return Period	No. of Returns Filed					
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23

Apr to Jun	0	1587429	1454626	1383617	1301998	1172971
Jul to Sep	1025171	1555474	1419641	1379009	1282544	1125649
Oct-Dec	1541827	1525639	1404544	1357479	1260210	1083410
Jan-Mar	1603733	1486357	1386315	1338037	1239917	1010151
	4170731	**6154899**	**5665126**	**5458142**	**5084669**	**4392181**

(Source:https://www.gst.gov.in/download/gststatistics)
The above table can be better understood by the below diagram:-



X axis: Year of return
Y axis: Number of returns filed by composition tax payers

The return filing trends for Composition Taxpayers over the past six years reflect an intriguing pattern: an initial spike in filings during the first year, followed by a steady decline in subsequent years. This trend provides important insights into taxpayer behavior and the evolving landscape of tax compliance in India. Key observations and interpretations are as follows:

<u>1. Initial Compliance Surge:</u> The noticeable increase in the number of returns filed in the first year post-implementation of GST can be attributed to the initial compliance efforts by taxpayers adapting to the new tax regime. This surge indicates a robust initial engagement with the system, likely driven by the legal necessities and the novelty of the GST system.

2.Gradual Decline in Subsequent Years: The subsequent decline in return filings suggests a tapering off of compliance over time. This could be due to a variety of factors including the complexities of compliance, the perceived burden of continuous filing, or the diminishing novelty effect. Additionally, this trend could reflect a stabilization in the number of active taxpayers who have adjusted their business practices to remain consistently compliant.

3.Shift from Composition to Regular Scheme: The decreasing trend in return filings under the Composition Scheme, coupled with anecdotal evidence of shifts to the regular GST scheme, suggests that businesses are seeking more beneficial avenues within the tax framework. This shift is indicative of businesses growing beyond the turnover limits of the Composition Scheme or desiring to avail themselves of the benefits like input tax credit available under the regular scheme.

4.Economic Positivity: The willingness of taxpayers to regularly engage with the tax system, despite the initial complexities, is a positive sign of growing tax compliance and awareness. This behavioral trend is encouraging for the economy, signaling a maturing approach to fiscal responsibilities and compliance.

5.Limitations of the Composition Scheme: The data underscores the inherent limitations of the Composition Scheme—such as turnover restrictions and the inability to claim input tax credit—that may not align with the aspirations of growing businesses. These limitations might explain why more businesses opt out of this scheme as they scale.

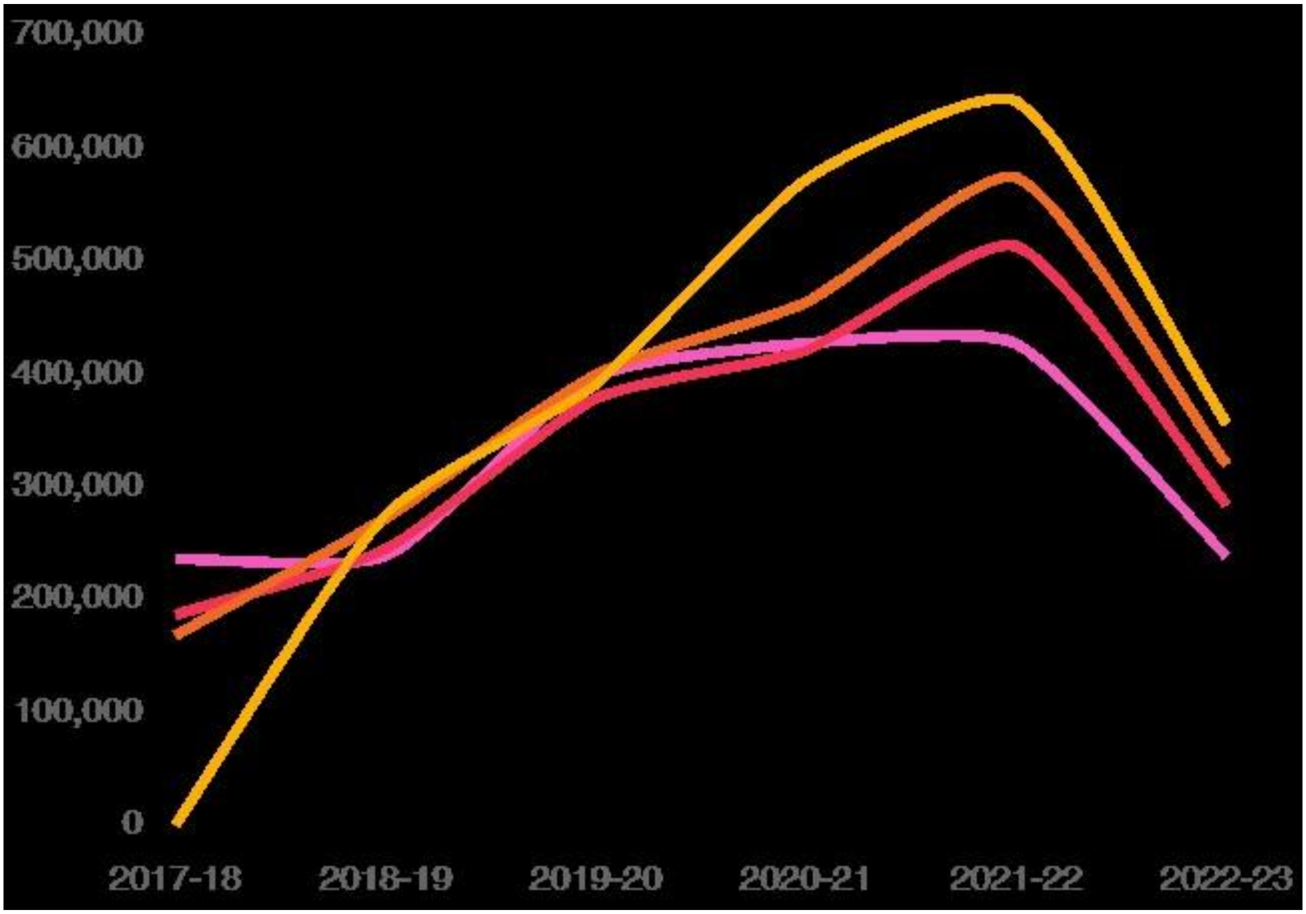
The filing trends under the GST Composition Scheme reveal a complex interplay of initial compliance enthusiasm followed by a strategic shift towards more flexible and beneficial tax regimes. This pattern not only reflects the adaptive strategies of small businesses in response to tax policies but also highlights the broader economic trajectory towards greater compliance and fiscal maturity.

Table No. 3
No. of Dealers covered under Composition Scheme filing Nil Returns

Return Period	No. of Returns filed					
	2017-18	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Apr to Jun	0	274417	390569	571467	640832	355523
Jul to Sep	167690	271691	398848	462833	573593	319322
Oct-Dec	186119	243722	377779	420443	512670	283643
Jan-Mar	235432	238275	396680	426505	426017	238030
	589241	**1028105**	**1563876**	**1881248**	**2153112**	**1196518**

(Source: https://www.gst.gov.in/download/gststatistics)

The above table can be better understood by the below diagram:-



X axis: Year of return
Y axis: Number of Nil returns filed

The data presented in Table Number-3 pertains to tax returns filed under the GST composition scheme by nil filers across different fiscal years and tax quarters. Here is an analysis of the trends observed:

1.Overall Growth in Returns Filed: There has been an overall upward trend in the number of returns filed from the fiscal year 2017-18 to 2021-22, followed by a significant drop in 2022-23. This suggests a growing adaptation to the composition scheme initially, with a possible decline in the scheme's uptake or a shift in taxpayer behavior in the most recent year.

2. Quarterly Trends:

- Q1 (Apr-Jun): This quarter shows a sharp increase in the number of returns filed from 2017-18 to 2021-22, peaking at 640,832 returns in 2021-22. However, there is a notable drop to 355,523 in 2022-23, possibly due to changes in tax regulations, economic factors, or shifts in the business landscape.

- Q2 (Jul-Sep) and Q3 (Oct-Dec): Both these quarters follow a similar pattern to Q1, with a consistent rise in returns filed until 2021-22, followed by a decline in 2022-23. The drop in Q2 and Q3 of 2022-23 is less pronounced compared to Q1.

- Q4 (Jan-Mar): This quarter also exhibits growth until 2021-22 but sees a dramatic reduction in 2022-23, aligning with the trend observed in other quarters.

3. Possible Economic or Regulatory Influences: The significant drop across all quarters in 2022-23 could be attributed to various factors such as economic downturns, changes in the composition scheme criteria, or businesses transitioning out of the composition scheme due to growth beyond the scheme's turnover threshold.

4. Yearly Aggregate Analysis: The total number of returns filed each year shows a steady increase from 589,241 in 2017-18 to 2,153,112 in 2021-22, before dropping to 1,196,518 in 2022-23. This aggregate trend underscores the fluctuations in compliance or participation in the composition scheme over the years.

5. Implications for Policy and Compliance: The observed trends could have implications for GST policy adjustments, particularly in encouraging compliance and simplifying tax processes for small businesses. The decrease in 2022-23 could signal the need for a review of the scheme's attractiveness or viability for taxpayers under current economic conditions.

This analysis provides a foundational understanding of taxpayer behavior under the GST composition scheme over the years, which could be crucial for further detailed studies or policy formulation.

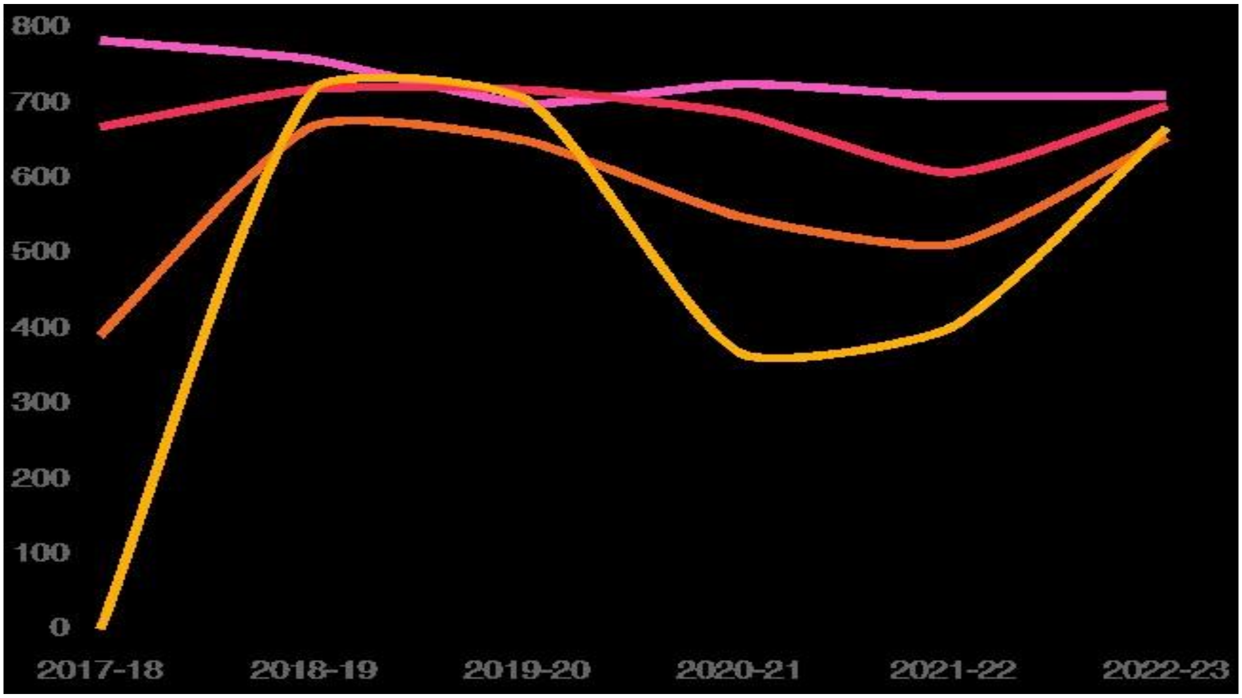
Objective mapped: To know the impact of GST composition scheme on government revenue. (Objective 3)

Table No. 4
Tax Collection through Composition Scheme

	Amount of tax paid in Cr.					
Return Period	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Apr to Jun	0	716.57	703.57	366.97	402.18	665.75
Jul to Sep	390.55	668.92	649.00	548.33	511.45	653.06
Oct-Dec	667.55	718.04	716.78	684.82	606.43	695.75
Jan-Mar	782.59	756.98	698.58	724.68	708.13	709.54
	1840.69	**2860.51**	**2767.93**	**2324.8**	**2228.19**	**2724.1**

(Source: https://www.gst.gov.in/download/gststatistics)

The above table can be better understood by the below diagram:-



X axis: Year of return
Y axis: Amount of taxes paid in crores

The data presented in Table Number-4 pertains to amount of tax paid tax returns filed under the GST composition scheme across different fiscal years and tax quarters. Here is an analysis of the trends observed:

1. Fluctuating Tax Collections: Tax collections show a pattern of fluctuations over the six-year period, without a clear upward or downward trend. This variability may indicate changes in economic conditions, compliance rates, or the effectiveness of the Composition Scheme itself.

2. Initial Increase Followed by Stabilization: There was an initial increase in tax collections from 2017-18 to 2018-19, suggesting an adaptation phase where more businesses might have entered the scheme or improved compliance. However, collections have largely stabilized since, with some minor fluctuations.

3. Impact of Economic Factors on Collections: The drop in tax collections in certain periods, such as the significant decrease from 2019-20 to 2020-21, could be attributed to economic downturns or sector-specific challenges affecting small businesses. For instance, the 2020-21 periods could reflect the economic impact of the COVID-19 pandemic.

4. Recovery and Resilience: The latest year (2022-23) shows a rebound in tax collections, especially in the April to June and October to December quarters. This rebound may signify a recovery from previous economic challenges and indicate resilience among small businesses operating under the Composition Scheme.

5. Quarterly Variability: There is notable variability in tax collections on a quarterly basis, which might reflect seasonal variations in business activities. For example, tax collections are typically higher in the October to December quarter, possibly due to increased business during festive seasons.

6. Long-term Stability Despite Short-term Fluctuations: Despite short-term fluctuations, the long-term view suggests that tax collections are relatively stable, indicating that while individual quarters may vary greatly, the overall contribution of the Composition Scheme to GST revenues is consistent.

These interpretations highlight the complex dynamics of tax collection under the GST Composition Scheme and suggest areas for further research into factors influencing these trends.

Objective mapped: To examine the simplicity factors of GST Composition scheme as far as ease of doing business is concerned. (Objective 4)

The Goods and Services Tax (GST) regime offers two main types of tax schemes for businesses: the Regular Tax Scheme and the Composition Tax Scheme. Here's a detailed tabular comparison between the two:

Table No.:5

Parameters	**Regular Tax Scheme**	**Composition Tax payer**
Applicability	It is applicable for assess having turnover > Rs. 1.50 crore	It is applicable for small assess having turnover upto Rs. 1.50 crore
GST Return Filling forms & Period	Monthly tax payments, Three monthly returns in form GSTR-1, GSTR-2, GSTR-3 and one annual return in form GSTR-9	Quarterly tax payment and quarterly return filling in form GSTR-4 and on annual return filling in form GSTR-9A
Input Tax credit	Allowed	Allowed
Tax collection on sales	Allowed	Not Allowed
Invoice	Tax invoice is issued	Bill of supply is issued instead of tax invoice under composition scheme.

Interstate sale supply	Allowed	Not allowed
Tax Invoice/Bill of Supply	It is mandatory to use word tax invoice on invoice	The word bill of supply is used on bills
Tax rates	Higher tax rates like 5 %, 12&, 18%, 28%	Lower tax rates like 1%, 5% , 6%
Maintenance of tax records	Mandatory to maintain detailed records	Not Mandatory to maintain detailed records
Non Resident taxable person\ Casual Taxable person	They are required to take compulsory registration	They can't opt for Composition Scheme.
E-Commerce	There is no restriction on sale of goods through e commerce	Sale of goods through e commerce is not allowed under composition scheme
Export of goods	There is no restriction on export of goods	Export of goods is not allowed under composition scheme
Restriction on some manufacturing unit	There is no such restriction	Manufacturer of Pan masala, ice cream or tobacco cannot opt for composition scheme

(Source: self-analyzed)

Choosing between the two schemes depends on the business size, nature, and capability to manage compliance requirements.

The Goods and Services Tax (GST) Composition Scheme in India is designed to simplify tax compliance for small businesses. Here are some of the key benefits of the GST Composition Scheme:

1. Lessened Burden of Compliance: The composition scheme drastically reduces the administrative burden and compliance effort for businesses by requiring them to file quarterly returns rather than monthly ones. The GST Composition scheme helps to reduce the annual compliance cost for the small & medium FMCG's business in Delhi NCR.

2. Lower Tax Rates: Compared to standard GST rates, composition taxpayers get lower tax rates. For instance, the tax rates are 1%, 5%, and 6%, respectively, for traders and manufacturers, restaurant services, and other service providers.

3. Simplified Invoicing: composition scheme businesses do not need to individually show the tax amount on their invoices, they can send bills of supply in place of tax invoices, which streamlines the invoicing process.

4. Limited Record Keeping: Under the composition system, enterprises are subject to less onerous record-keeping standards, which alleviate the strain of keeping comprehensive accounts and records.

5. Improved Liquidity: Businesses are able to retain a larger portion of their earnings due to the reduced tax rate, which enhances their cash flow and liquidity.

6. Ease of Business: Small firms are able to concentrate more on their main operations rather than intricate tax compliances due to the scheme's simplicity.

7. Predictable Tax burden: Businesses can more easily anticipate their tax burden because to the composition scheme's fixed percentage tax on turnover, which promotes improved financial planning and management.

8. Promotion of Voluntary Registration: In order to profit from the composition system and become part of the formal economy, small enterprises with annual sales under the level for required GST registration may choose to voluntarily register.

9. Competitive Advantage: Small firms can enhance their competitiveness in the market by lowering their financial load and tax compliance expenses.

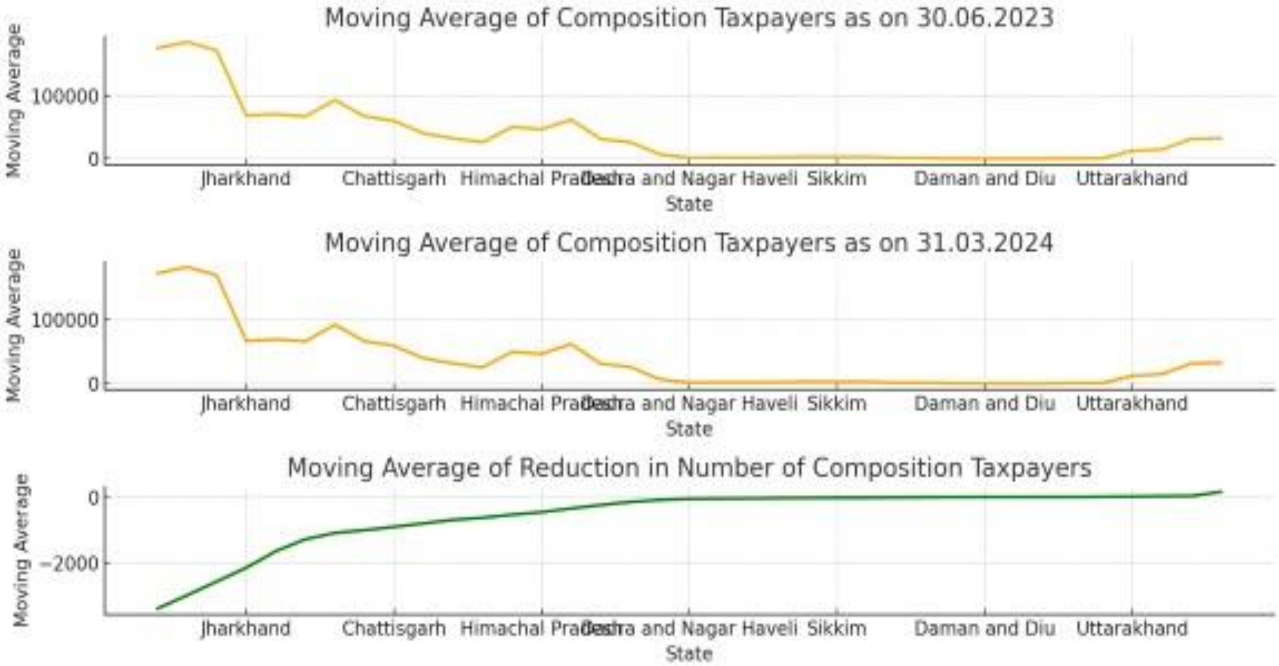
Conclusion

The implementation of the GST Composition Scheme represented a significant shift in India's indirect tax landscape, aimed at simplifying compliance and reducing tax burdens for small to medium enterprises. A Trend analysis has been done so as to visualize the trends as below:

For trend analysis, we have:

1. **Visualize trends over time** using line charts for:
   - Taxpayers as on 30.06.2023
   - Taxpayers as on 31.03.2024
   - Reduction in number of taxpayers over 9 months
2. **Calculate Moving Averages** to smooth out short-term fluctuations and highlight longer-term trends in the data.

Let's create these visualizations and calculate moving averages.



The trend analysis has been visualized using line charts and moving averages. These plots show:

1. The number of composition taxpayers as on 30.06.2023 and 31.03.2024 for each state.
2. The reduction in the number of composition taxpayers over a period of 9 months.
3. The moving averages for each of these metrics to smooth out short-term fluctuations.

While this study has illuminated various facets of the scheme's impact on the FMCG sector in the Delhi National Capital Region, it also reveals a complex interplay of benefits and challenges that have shaped the industry's adaptation to this tax reform.

1. Incremental Adoption and Subsequent Decline: Our findings suggest an initial enthusiastic adoption of the Composition Scheme, evidenced by increasing numbers of filings in the initial years. However, this trend reversed in recent periods, signaling potential dissatisfaction or structural limitations within the scheme. The data indicates a significant drop in 2022-23, pointing to a need for reevaluation of the scheme’s parameters or perhaps reflecting broader economic shifts that influence business operations and tax behavior.

2. Business Impact and Operational Challenges: While the scheme has indeed offered simplified tax procedures and reduced compliance costs, these advantages are counterbalanced by constraints such as the ineligibility for input tax credit and restrictive turnover limits. These limitations have not only curtailed the scheme's attractiveness but have also impacted the operational dynamics of businesses within the FMCG sector, particularly those poised for growth beyond the scheme's thresholds.

3. Regional Variations and Industry Responses: The study also underscores significant regional variations in the adoption and impact of the Composition Scheme. While some areas exhibit a decrease in scheme participants, others show marginal increases, suggesting that local economic conditions and industry-specific factors heavily influence the scheme's effectiveness.

4. Policy Implications and Recommendations: In light of these insights, it is imperative for policymakers to consider targeted modifications to the Composition Scheme that address these identified challenges. Enhancing the scheme’s flexibility, expanding eligibility criteria, and possibly integrating mechanisms for partial input tax credit could enhance its utility and support the sustained growth of the FMCG sector.

5. Future Research Directions: Given the evolving economic landscape and the FMCG sector's critical role in the economy, continuous monitoring and research are essential to fully understand the long-term impacts of the GST Composition Scheme. Future studies should aim to dissect the specific factors influencing businesses' decisions to opt in or out of the scheme and the resultant economic outcomes.

(Dulloo et al., 2022), The study concluded that the Goods and Services Tax (GST) has had a substantial impact on the Indian economy by simplifying the tax system, boosting output, assisting small and medium-sized businesses, strengthening pan-India operations, and increasing exports. The GST regime has decreased the cascading effect on the sale of goods and services, resulting in lower inflation and overall price reductions. The common national market has grown more accessible, allowing small and medium-sized businesses to grow.

The GST implementation has resulted in the convergence of state and central government taxes, minimising the cascading effect of various levies while increasing the number of taxpayers and tax revenues. Small and medium-sized enterprises have also been able to improve, and the GST is projected to assist more Indian organisations establish themselves in worldwide markets.

Finally, in 2017, the Goods and Services Tax (GST) was implemented, the most significant economic change since independence. The BJP government, led by Prime Minister Shri Narendra Modi, adopted the GST, resulting in India's economic development and a 14th place rating in the World Bank's Doing Business 2020 report. The implementation of GST has brought India on level with global countries with more structured tax systems, and it is expected to continue expanding its economic frontiers.

In conclusion, while the GST Composition Scheme has facilitated certain positive outcomes for the FMCG sector in Delhi NCR, its full potential is yet to be realized. Addressing its limitations through thoughtful policy reform could significantly enhance its effectiveness, ensuring it serves as a catalyst for growth and innovation in the sector.

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