A STUDY ON THE PERCEPTIONS AND PREFERENCES OF MSME UNITS REGARDING COMPOSITION LEVY UNDER SECTION 10 OF THE CGST ACT, 2017

Abstract

GST has also brought digital transformation through an online platform for registration, return filing, and tax payment, thereby improving transparency, efficiency, and ease of doing business. Under GST, businesses can choose between the Normal GST Scheme and the Composition Scheme, depending on their turnover and nature of business.

This study examines the perceptions, awareness, and preferences of MSME units regarding the GST Composition Scheme introduced to reduce the compliance burden under GST. While GST simplified India's indirect tax system through uniform taxation and digital processes, small businesses still face challenges under the Normal GST Scheme such as frequent return filing, detailed record keeping, and higher compliance costs. The Composition Scheme offers MSMEs lower tax rates, simplified procedures, and fewer returns, making it attractive for smaller businesses. However, restrictions such as no input tax credit, no inter-state supply, and inability to collect tax from customers may limit its suitability. MSMEs also face issues like market competition, price sensitivity, and limited professional support, influencing their scheme preference. The study aims to identify the factors affecting their decisions and suggest improvements for better choice & implementation of the Composition Scheme.

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INTRODUCTION:

The Goods and Services Tax (GST) regime introduced the Composition Levy under Section 10 of the CGST Act, 2017 with the objective of reducing the compliance burden on small taxpayers and promoting ease of doing business. The scheme provides a simplified mechanism of tax payment at concessional rates, along with reduced return filing and procedural requirements. However, certain statutory restrictions such as non-availability of input tax credit, limitations on inter-State outward supplies, and inability to collect tax separately from customers significantly influence its practical suitability. *For Micro, Small and Medium Enterprises (MSMEs), the choice between regular registration and composition levy is therefore a strategic business decision involving profitability, compliance cost, and market structure. In this background, the present study analyses the perceptions, awareness, and preferences of MSME units in Vadodara City regarding the Composition Levy under GST.*

LITERATURE REVIEW:

The literature on Goods and Services Tax (GST) reflects its role as a major reform in India's indirect tax system. Studies indicate that GST has simplified taxation by replacing multiple taxes and reducing cascading effects, thereby improving transparency and efficiency (Bagyalakshmi, 2015; Kamalakkannan, 2016). It has also contributed to the creation of a unified national market and supported economic growth by enhancing tax compliance and consumption patterns (Jain, 2020; Bhura et al., 2023). A significant body of research focuses on the impact of GST on Micro, Small and Medium Enterprises (MSMEs). Scholars highlight that GST has encouraged formalisation, improved record-keeping, and enabled better utilisation of tax credits through the Input Tax Credit (ITC) mechanism (Nandi & Banerjee, 2018; Joseph & Jacob, 2020). At the same time, MSMEs face challenges such as increased compliance burdens, digital dependency, frequent regulatory changes, and cash flow issues due to delayed refunds (Patil et al., 2023; Adesh et al., 2025). The composition scheme is recognised as a supportive provision for small taxpayers. It offers simplified procedures and lower tax rates, reducing administrative burden (Malhotra & Kumar, 2019; Khaitan & Trivedi, 2023). However, limitations such as non-availability of ITC, turnover thresholds, and restrictions on interstate supply reduce its effectiveness for growing enterprises (Prajapati, 2025; Jain & Gokhru, 2025). Recent research also indicates that continued simplification of GST procedures and rationalisation of tax provisions can significantly enhance MSME competitiveness, improve liquidity, and encourage greater voluntary compliance among small businesses (Yadav & Rastogi, 2025).

RESEARCH GAP:

Although the literature provides valuable insights, certain gaps remain. Many studies discuss GST broadly but lack a detailed analysis of specific provisions, such as ITC blockage and its operational impact. There is limited comparative research on the composition scheme and the regular scheme regarding cost and efficiency. Further, region-specific empirical studies, particularly in Gujarat, are inadequate. The behavioural and practical challenges of digital compliance among small businesses are also underexplored. Lastly, long-term sustainability and growth outcomes of GST for MSMEs require deeper investigation.

OBJECTIVES OF THE STUDY:

- To assess awareness, perception, behaviour and satisfaction of MSME tax payers of the CGST Act, 2017 Section 10 Composition Levy.
- To Identify the Factors which affect the taxpayer's choice of the Composition Scheme over the Regular GST Scheme in detail considering the various factors such as Input Tax Credit (ITC) availability, Compliance burden, nature of business etc.
- To understand the pros and cons of Composition Scheme and Regular GST Scheme in various scenarios of businesses in comparison with each other, especially in the context of Business-to-Consumer (B-to-C) transactions.
- To study the advantages, constraints, and issues in operation of the Composition Scheme and suggest the policy intervention to enhance its effectiveness, compliances of taxpayers and suitability with MSMEs.

RESEARCH METHODOLOGY:

The present study adopts a **mixed-method approach,** combining both primary and secondary data to examine the impact of the GST Composition

Scheme on MSMEs in Vadodara. This approach enables a comprehensive evaluation by integrating practical experiences of respondents with conceptual and theoretical insights.

1. Research Design

The study is **descriptive as well as analytical** in nature. It aims to assess the level of awareness, applicability, benefits, limitations, and overall satisfaction of MSMEs regarding the GST Composition Scheme. Further, it examines the practical challenges faced by businesses operating under both the Composition Scheme and the Normal GST Scheme.

2. Data Collection Methods

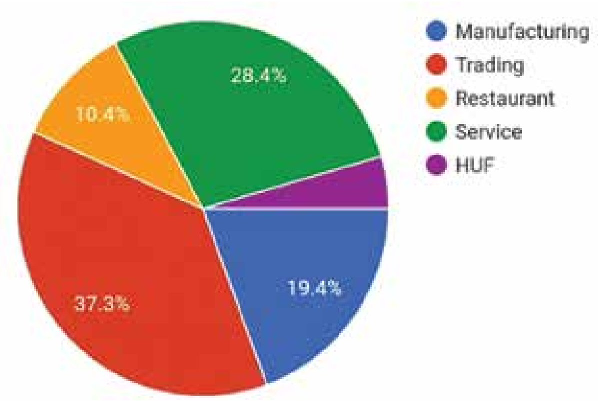
a) Primary Data: Primary data was collected through a **well-structured questionnaire** specifically designed for the study. The questionnaire included both qualitative and quantitative questions to obtain detailed responses. Data collection was carried out through the following methods:

Field Survey: Personal visits were made to various MSMEs in Vadodara to directly collect responses from business owners and professionals. This ensured reliable and practical insights based on real business experiences.

Google Forms: An online questionnaire was circulated to reach a broader group of respondents, providing convenience and improving response coverage.

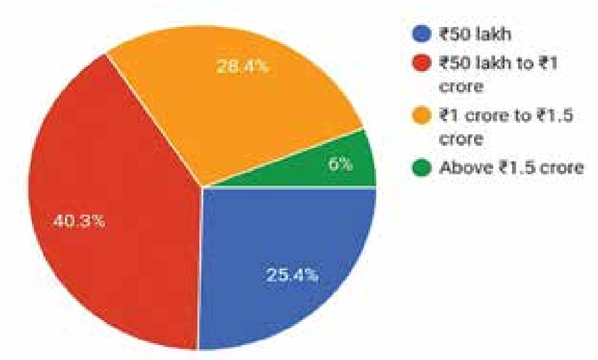
The respondents included **business owners and professionals** such as Chartered Accountants (CAs), Cost and Management Accountants (CMAs), and Company Secretaries (CSs). The sample represented a wide range of sectors, including **manufacturing, trading, restaurants, service providers, and other business activities.**

PRIMARY DATA ANALYSIS:



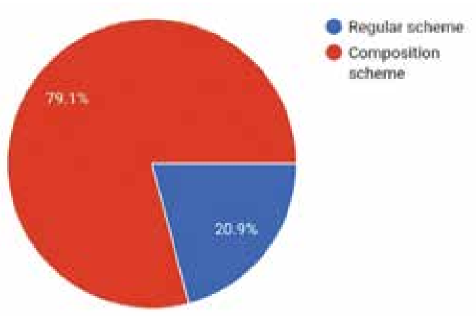
Nature of Business:

The survey received responses from 67 business organizations, which were further segmented into five major business segments – Manufacturing, Trading, Restaurant, Service and Hindu Undivided Family (HUF). Of these, the Trading sector consisted of the greatest number of respondents in total (37.3%) while the Service sector accounted for 28.4% of the total sample. The Trading and Service sectors had a clear majority in the survey sample, with 65.7% of all respondents in these two sectors. This distribution indicates that the results of the survey are mostly based on the trading and service industries.



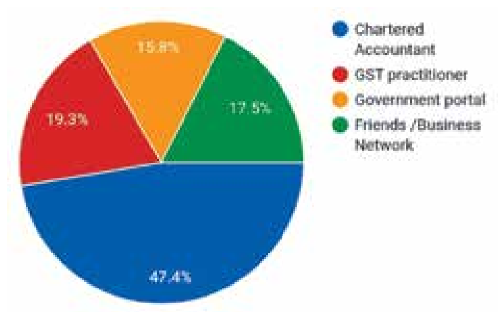
Annual Turnover of businesses:

The analysis of respondents' approximate annual turnover indicates that nearly 69% of the surveyed entities reported an annual turnover ranging between ₹50 lakh and ₹1.5 crore, reflecting the substantial participation of small and medium-sized enterprises (SMEs). Furthermore, approximately 94% of the respondents fall within the target turnover range prescribed under the scheme, demonstrating that the survey effectively captured the intended beneficiary group. This indicates that the sample is highly representative of the businesses for which the scheme is primarily designed.



Are you registered under Regular scheme or Composition scheme under GST?

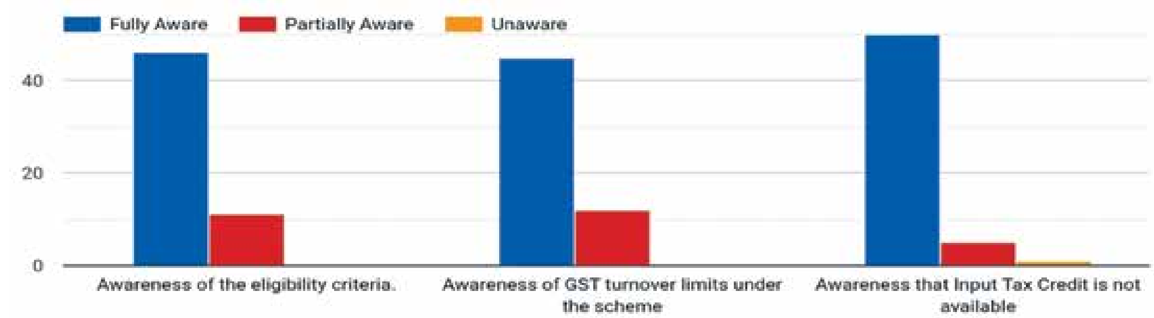
The data suggests that, within this specific sample of 67 respondents, the Composition scheme is the preferred method for GST registration. The Composition scheme is typically designed for small taxpayers, allowing them to pay GST at a fixed, lower rate of turnover, often with fewer compliance requirements compared to the regular scheme.



Source of information about the GST composition scheme:

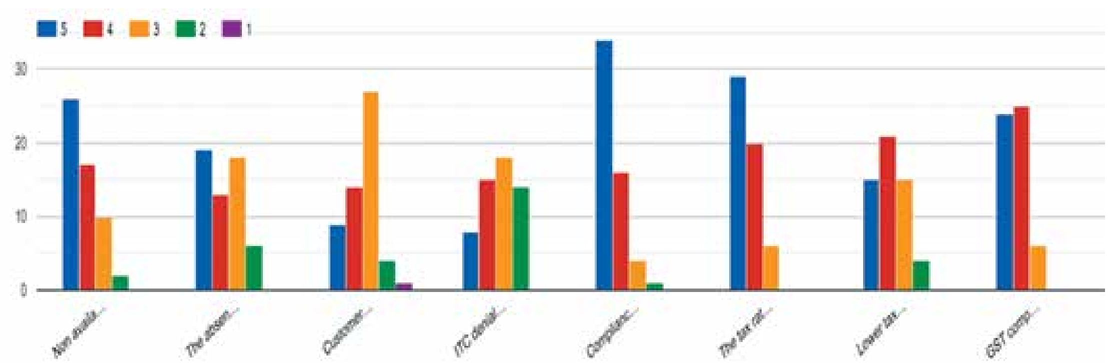
Overall, the findings suggest that MSMEs exhibit a clear inclination towards human assistance rather than independently accessing official digital platforms. While professional guidance ensures better advisory, understanding and compliance, it may also increase dependency and associated costs for small businesses.

Awareness about the GST Composition Scheme among small businesses:



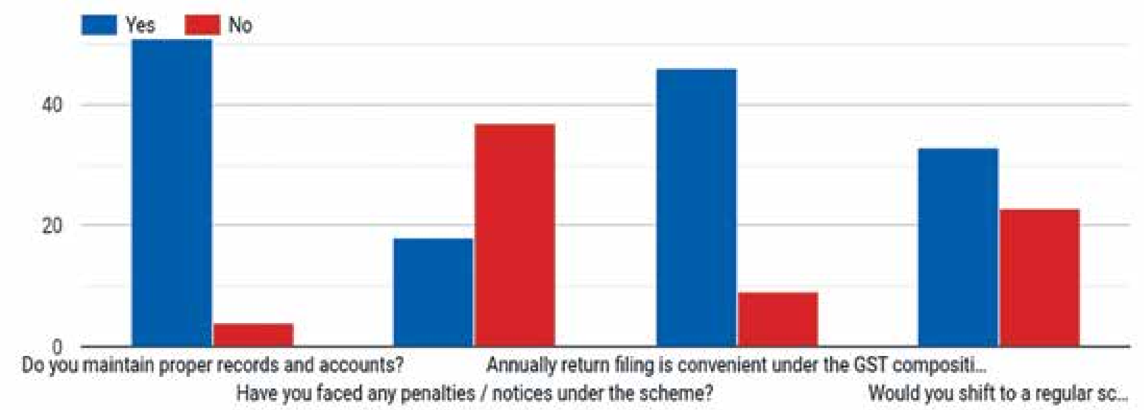
The overall awareness of Composition Levy under Section 10 of the CGST Act, 2017 among MSMEs is satisfactory at a basic level but requires further improvement in terms of depth and clarity. There is a clear need for more targeted educational efforts, such as workshops, training sessions, and simplified explanatory materials, to bridge the gap between partial and full awareness.

Evaluate impact of non-availability of ITC and compliance & administrative aspects under the GST composition scheme:



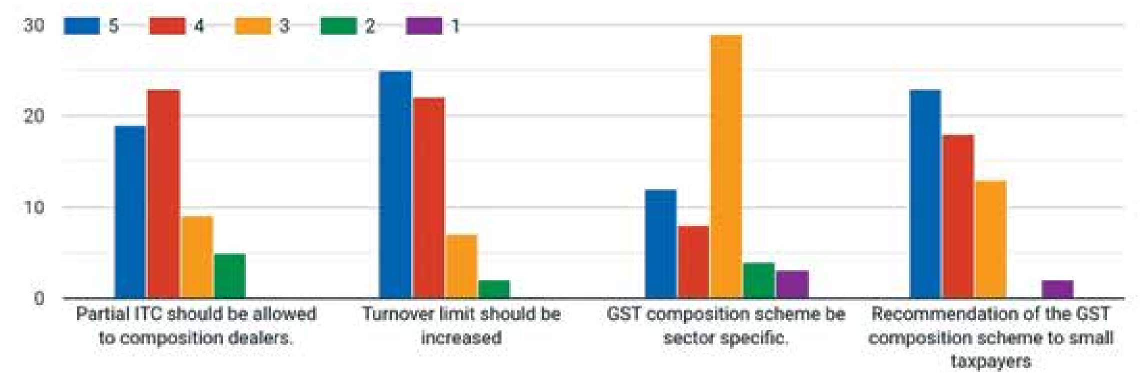
Most MSMEs agreed that both factors significantly impact their business. A majority strongly felt that non-availability of ITC increases costs and reduces profitability, making it a major drawback of the Composition Scheme. Regarding compliance requirements, most respondents agreed they have an impact, though some considered the scheme comparatively simple and manageable.

Overall questions about Composition Levy under Section 10 of the CGST Act, 2017:



Overall, the diagram highlights that MSMEs generally have a favourable experience with the GST composition scheme. Most respondents maintain proper records, have not faced penalties, and find return filing convenient. The positive inclination towards continuing or recommending the scheme further reinforces its acceptance among small businesses.

Evaluate policy suggestions and improvements:



Overall Likert Interpretation:

The overall trend of responses is concentrated towards scale points 4 and 5 (Agree to Strongly Agree), indicating a positive perception of the proposed policy improvements. ***The strongest support is observed for increasing the turnover limit, followed by allowing partial ITC.***

Financial decision making (Regular Scheme v/s. Composition Scheme under GST)-Based on Secondary Data:

The Composition Levy under Section 10 of the CGST Act, 2017 is generally more beneficial in case of B-to-B transactions, since the recipient under the regular scheme can avail Input Tax Credit (ITC), thereby reducing the overall tax cost in the supply chain. On the other hand, in case of B-to-C transactions, where the customer is the ultimate consumer and ITC is not available, the choice between the Composition Scheme and the Regular Scheme depends upon various commercial factors such as the applicable GST rate on the product, the profit margin, pricing strategy, and market competitiveness. Accordingly, the beneficial option in B-to-C transactions needs to be evaluated on a case-to-case basis, as under:

"The following cases are illustrative simulation models developed using hypothetical assumptions to

compare the tax implications under the Regular and Composition Schemes. They are intended solely for analytical purposes and should not be interpreted as empirical findings."

CASE-1: - Analysing the Financial Impact -Assume Profit Margin is 5% (under the scenario of all three major rates of GST):

GST RATE	5%		18%		40%	
PARTICULARS	**Regular scheme**	**Composition scheme**	**Regular scheme**	**Composition scheme**	**Regular scheme**	**Composition scheme**
PURCHASE PRICE	100	100	100	100	100	100
PLUS: GST	5	5	18	18	40	40
TOTAL PAYMENT	105	105	118	118	140	140
SELLING PRICE (cost + profit)	105	109.15	105.00	122.66	105	145.53
PLUS: GST	5.25	1.10	18.90	1.24	42	1.47
*****EFFECTIVE PRICE FOR FINAL CUSTOMERS**	**110.25**	**110.25**	**123.90**	**123.90**	**147**	**147**
TAX PAYMENT TO GOVERNMENT BY A SUPPLIER	0.25	1.10	0.90	1.24	2	1.47
EFFECTIVE NET MARGIN (in INR)	**5**	**4.15**	**5**	**4.66**	**5**	**5.53**

****(For the purpose of analysis, it has been assumed that the selling price remains unchanged under both the Regular and Composition Schemes, as customers are generally indifferent to the GST scheme opted for by the supplier. Since the choice of tax scheme does not typically influence the price paid by customers, the selling price applicable under the Regular Scheme has been considered to be the same under the Composition Scheme. This assumption facilitates a fair practical comparison of the financial implications of the two schemes by isolating the impact of the tax structure.)*

Interpretation:

- **GST Rate @ 5%:**

  Regular Scheme: Input Tax Credit (ITC) of ₹5 is available, and therefore the effective purchase cost remains ₹100. The final selling price to the customer is ₹110.25. Since ITC is available, the net GST payable is only ₹0.25 after set-off of input credit. Accordingly, the supplier earns a margin of ₹5.

  Composition Scheme: Input Tax Credit of ₹5 is not available, and therefore the effective purchase cost increases to ₹105. The supplier continues to sell the product at the same market-driven price of ₹110.25, since the customer is generally indifferent to the scheme opted by the supplier. Further, the supplier is required to pay composition tax of ₹1.10 (1% of turnover). As a result, the net realization becomes ₹109.15, resulting in a margin of ₹4.15 (₹109.15 less ₹105), which is lower by approximately 17% as compared to the Regular Scheme.

  This demonstrates that where GST rates are low and profit margins are modest (around 5%), the **Regular Scheme** is more beneficial due to the availability of Input Tax Credit.

- **GST Rate @ 18%:**

  Regular Scheme: Input Tax Credit (ITC) of ₹18 is available, and therefore the effective purchase cost remains ₹100. The final selling price to the customer is ₹123.90. Since ITC is available, the net GST payable is only ₹0.90 after set-off of input credit. Accordingly, the supplier earns a margin of ₹5.

Composition Scheme: Input Tax Credit of ₹18 is not available, and therefore the effective purchase cost increases to ₹118. The supplier continues to sell the product at the same market-driven price of ₹123.90, since the customer is generally indifferent to the scheme opted by the supplier. Further, the supplier is required to pay composition tax of ₹1.24 (1% of turnover). As a result, the net realization becomes ₹122.66, resulting in a margin of ₹4.66 (₹122.66 less ₹118), which is lower by approximately 6.8% as compared to the Regular Scheme.

This demonstrates that where GST rates are modest and profit margins are modest (around 5%), the **Regular Scheme** is more beneficial due to the availability of Input Tax Credit.

- **GST Rate @ 40%:**

Regular Scheme: Input Tax Credit (ITC) of ₹40 is available, and therefore the effective purchase cost remains ₹100. The final selling price to the customer is ₹147. Since ITC is available, the net GST payable is only ₹2 after set-off of input credit. Accordingly, the supplier earns a margin of ₹5.

Composition Scheme: Input Tax Credit of ₹40 is not available, and therefore the effective purchase cost increases to ₹140. The supplier continues to sell the product at the same market-driven price of ₹147, since the customer is generally indifferent to the scheme opted by the supplier. Further, the supplier is required to pay composition tax of ₹1.47 (1% of turnover). As a result, the net realization becomes ₹145.53, resulting in a margin of ₹5.53 (₹145.53 less ₹140), which is **higher** by approximately 6.8% as compared to the Regular Scheme.

This demonstrates that where GST rates are highest and profit margins are modest (around 5%), the Composition Scheme is more beneficial than Regular Scheme.

Conclusion: For a 5% profit margin, the Regular Scheme is better at low and moderate GST rates (5% and 18%). However, at a high GST rate (40%), the Composition Scheme becomes more profitable. The final price to customers remains the same in all cases.

CASE-2: - Analysing the Financial Impact, Assume Profit Margin is 20% (under the scenario of all three major rates of GST):

GST RATE	5%		18%		40%	
PARTICULARS	Regular scheme	Composition scheme	Regular scheme	Composition scheme	Regular scheme	Composition scheme
PURCHASE PRICE	100	100	100	100	100	100
PLUS: GST	5	5	18	18	40	40
TOTAL PAYMENT	105	105	118	118	140	140
SELLING PRICE (cost + profit)	120	124.74	120	140.184	120	166.32
PLUS: GST	6	1.26	21.6	1.416	48	1.68
EFFECTIVE PRICE FOR FINAL CUSTOMERS	126	126	141.6	141.6	168	168
TAX PAYMENT TO GOVERNMENT BY A SUPPLIER	1	1.26	3.6	1.416	8	1.68

EFFECTIVE PRICE FOR FINAL CUSTOMERS	126	126	141.6	141.6	168	168
EFFECTIVE NET MARGIN	**20**	**19.74**	**20**	**22.184**	**20**	**26.32**

Interpretation:

- **GST Rate @ 5%:** *This demonstrates that where GST rates are low and profit margins are good (around 20%), the **Regular Scheme** is more beneficial due to the availability of Input Tax Credit.*
- **GST Rate @ 18%:** *This demonstrates that where GST rates are moderate and profit margins are good (around 20%), the Composition Scheme is more beneficial than Regular Scheme. Effective Profit margin under Composition is **higher** by approximately 10.92% as compared to the Regular Scheme.*
- **GST Rate @ 40%:** *This demonstrates that where GST rates are highest and profit margins are modest (around 5%), the Composition Scheme is more beneficial than Regular Scheme. Effective Profit margin under Composition is **higher** by approximately 31.60% as compared to the Regular Scheme.*

Case-3: - Analysing the Financial Impact, Assume Profit Margin is 30% (under the scenario of all three major rates of GST):

GST RATE	5%		18%		40%	
PARTICULARS	**Regular scheme**	**Composition scheme**	**Regular scheme**	**Composition scheme**	**Regular scheme**	**Composition scheme**
PURCHASE PRICE	100	100	100	100	100	100
PLUS: GST	5	5	18	18	40	40
TOTAL PAYMENT	105	105	118	118	140	140
SELLING PRICE (cost + profit)	130	135.135	130	151.866	130	180.18
PLUS: GST	6.5	1.365	23.4	1.534	52	1.82
EFFECTIVE PRICE FOR FINAL CUSTOMERS	136.5	136.5	153.4	153.4	182	182
TAX PAYMENT TO GOVERNMENT BY US	1.5	1.365	5.4	1.534	12	1.82
EFFECTIVE PRICE FOR FINAL CUSTOMERS	136.5	136.5	153.4	153.4	182	182
EFFECTIVE NET MARGIN	**30**	**30.135**	**30**	**33.866**	**30**	**40.18**

This demonstrates that where profit margins are 30% or more the Composition Scheme is more beneficial than Regular Scheme irrespective of GST rates.

COMPARATIVE VIEW BETWEEN REGULAR SCHEME AND COMPOSITION LEVY UNDER SECTION 10 OF THE CGST ACT, 2017:

Sr. No.	Particulars	Regular GST	Composition Scheme
1	**Turnover Limit**	No limit	Up to ₹1.5 Cr for goods / ₹50 lakhs for services
2	**GST Tax Rates**	0-40%	1%, 5%, 6%
3	**Return Filing Frequency**	Monthly/Quarterly	Annually
4	**Input Tax Credit**	Available subject to other provisions	Not Available at all
5	**Inter-State Outward Supply**	Allowed	Not Allowed
6	**Compliances**	Comparatively higher	Comparatively Lower
7	**Conditions & restrictions**	Generally, no restrictions	Yes, it applies
8	**RCM applicability**	Yes	Yes
9	**GST collection from customers**	Yes	Not permissible
10	**Invoice required to be issued**	Tax Invoice	Bill of Supply
11	**Suitability**	Large/Medium Business, & B-to-B transactions for small businesses	Small Business with B-to-C transactions

The study is conducted on the basis of conceptual framework which explains the factors influencing MSMEs' preference of the Composition Scheme or the Regular GST Scheme under the CGST Act, 2017. The framework suggests that the level of awareness of the taxpayers about the provisions of GST and the perceived compliance burden under the different schemes is influenced by the characteristics of business such as the nature of business, annual turnover, profit margin, and business sector. At the same time, the expected advantages of Input Tax Credit (ITC) in the Regular Scheme would impact the economic consideration of the tax options available to the taxpayer. All of these factors shape the taxpayer's scheme preference, and in turn influence the extent of taxpayer satisfaction in the scheme selected. It is assumed that businesses with higher GST awareness and who are benefiting significantly from the ITC may opt for the Regular Scheme while those preferring to have a simplified compliance and lower administrative burden may opt for the Composition Scheme. Taxpayer satisfaction is therefore seen as the result of deciding on the most appropriate scheme in relation to the operational nature of the enterprise, its ability to comply with the scheme and the economic considerations. This conceptual direction gives a theoretical basis for analysing the relationship between the study variables and interpreting the empirical results of the survey.

CONCLUSIONS & SUGGESTIONS:

Strengthening the GST Composition Scheme requires a more inclusive and flexible approach that aligns with the realities of small businesses. Raising the turnover threshold to match presumptive taxation limits, allowing limited interstate trade, and periodically reviewing tax rates would make the scheme more beneficial and accessible. Simplifying compliance procedures, improving the efficiency of the GST portal, and offering structured awareness and training programs can ease operational challenges for taxpayers. Additionally, providing sector-specific relaxations, enabling smoother transitions between composition and regular schemes, and establishing a continuous feedback mechanism will ensure that reforms remain responsive to business needs. Collectively, these measures can enhance the scheme's effectiveness, support MSME growth, and promote a more balanced and sustainable tax environment. MA

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