

Post-Sale Discounts to Be Granted Through Credit Notes: Agreement Requirement Omitted.

- By CA Sreenivasulu Thulasiram

The Goods and Services Tax (GST) Council, in its **56th meeting held on 3rd September 2025**, made significant recommendations to amend the CGST Act, 2017, **particularly in relation to the treatment of post-sale discounts**.

The recommended amendments include the omission of Section 15(3)(b)(i) and (ii) of the CGST Act, 2017, and the substitution of Section 15(3)(b) to provide for post-sale discounts through GST credit notes under Section 34, along with consequential amendments to Section 34. These changes also provide for corresponding ITC reversal by the recipient. Further, Circular No. 212/6/2024-GST dated 26 June 2024 is proposed to be rescinded.

The amendments to Sections 15(3)(b) and 34 **have now come into effect from 1 November 2026** vide Notification No. 03/2026-Central Tax dated 26 October 2026. The amendments and their implications for taxpayers are discussed in detail in the following paragraphs.

Analysis:

1. Omission of Section 15(3)(b)(i) of the CGST Act, 2017

- (a) Under the existing provisions, a supplier can reduce the value of supply by a post-supply discount only if the following conditions are satisfied:
 - ❖ The discount is established in an agreement entered into at or before the time of supply.
 - ❖ The discount is linked to the relevant invoice.
 - ❖ The ITC attributable to the discount has been reversed by the recipient, based on the document issued by the supplier.
- (b) In the author's view, businesses found it challenging to compute the discount amount accurately before or at the time of supply.
- (c) The requirement to link credit notes to specific invoices was removed with effect from 1 February 2019. However, the existing rules continued to require that each discount be linked to the corresponding invoice.
- (d) In practice, suppliers have no reliable way to verify whether their customers have actually reversed the ITC after receiving GST credit notes. This makes it difficult for suppliers to justify reducing their taxable value and GST liability.
- (e) The statute did not clearly specify the documentation required to reduce the taxable value when discounts are given. In practice, however, the industry has generally used GST credit notes to account for post-supply incentives.
- (f) Omitting Section 15(3)(b)(i) resolves these persistent practical challenges and better reflects commercial reality..

Side-by-side comparison of Section 15(3)(b) of the CGST Act 2017;

Up to 31 st October 2026	W.e.f. 01 st November 2026
Section 15(3): <i>The value of the supply shall not include any discount which is given–</i>	Section 15(3): <i>The value of the supply shall not include any discount which is given–</i>

<p>a).....</p> <p>b) after the supply has been effected, if—</p> <p>(i) such discount is established in terms of an agreement entered into at or before the time of such supply and specifically linked to relevant invoices; and</p> <p>(ii) input tax credit as is attributable to the discount on the basis of document issued by the supplier has been reversed by the recipient of the supply.</p>	<p>a).....</p> <p>b) after the supply has been effected, if for such discount, a credit note has been issued by the supplier and input tax credit as is attributable to such discount has been reversed by the recipient of the supply, in accordance with the provisions of section 34.</p>
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2. Amendment of Section 15(3)(b) and Section 34 of the CGST Act, 2017

- (a) The amendment introduces a clear mechanism under Section 15(3)(b) for adjusting post-supply discounts by issuing a GST credit note to reduce the value of supply.
- (b) At present, Section 34 allows a GST credit note to be issued in four situations:
 - ❖ The taxable value charged is higher than the actual value.
 - ❖ A higher GST rate has been applied.
 - ❖ Goods are returned by the recipient.
 - ❖ The goods or services supplied are found to be deficient.
- (c) The amendment adds a fifth situation: a post-sale discount under Section 15(3)(b) is now a valid reason for issuing a GST credit note.
- (d) It is also important to note the amendment made by Section 126 of the Finance Act, 2025, which inserted a proviso in Section 34. The proviso states that no reduction in the supplier's output tax liability is allowed if:
 - ❖ the recipient, if registered, has not reversed the ITC attributable to the credit note; or
 - ❖ in other cases, the tax burden has been passed on to another person.
- (e) The amendment recommended by the Council in its 56th meeting is aligned with this Finance Act amendment of 2025, which came into effect **on 1 October 2025** vide Notification No. 16/2025-Central Tax dated 17 September 2025.

3. Rescinding Circular No. 212/6/2024-GST dated 26 June 2024

- (a) The above circular was issued to provide a mechanism for suppliers to comply with the conditions of Section 15(3)(b)(ii), ensuring that recipients reverse the ITC on post-supply discounts received.
- (b) The circular acknowledged that the common portal did not have any functionality for suppliers or tax officers to verify whether the recipient had proportionately reversed the ITC.
- (c) It therefore clarified that, until such functionality was made available, the supplier could obtain a declaration or certificate from the recipient confirming that the required proportionate ITC reversal had been made for the credit note issued. The requirements were:
 - ❖ **Tax amount (CGST + SGST + IGST + Cess) up to Rs. 5,00,000:** self-declaration by the recipient.
 - ❖ **Tax amount (CGST + SGST + IGST + Cess) exceeding Rs. 5,00,000:** certificate from a Chartered Accountant or Cost Accountant of the recipient.

- (d) With the amendment and the introduction of the Invoice Management System (IMS), these declarations are no longer required. The mechanism provided by the circular has therefore become redundant, leading to its rescission.
- (e) The circular has been rescinded by the issuance of Circular No. 253/10/2025-GST dated 1st October 2025.

Implications of the Amendments:

Ease of doing business	<ul style="list-style-type: none"> ❖ By removing the requirements of a pre-supply agreement and invoice linkage, the amendment reduces paperwork and disputes between suppliers and tax authorities. ❖ Businesses gain more flexibility to grant trade discounts or incentive rebates after the sale.
Tax neutrality and compliance balance:	<ul style="list-style-type: none"> ❖ While suppliers have been given relief, the safeguard of ITC reversal by recipients ensures that the exchequer does not suffer revenue leakage. ❖ This maintains a balance between business facilitation and revenue protection.
Reduction in litigation:	<ul style="list-style-type: none"> ❖ Post-sale discounts have been a contentious issue since the inception of GST, with taxpayers and authorities often taking conflicting interpretations. ❖ The amended framework provides a uniform mechanism for treating such discounts, which is likely to reduce interpretational differences and litigation.
Alignment with trade practices:	<ul style="list-style-type: none"> ❖ In practice, discounts are often agreed after observing sales volumes, seasonal performance or market conditions. ❖ Linking discounts to credit notes, instead of rigid invoice-linkage conditions, makes the law more consistent with how businesses actually operate.

Conclusion:

- ❖ The amendments to Section 15(3)(b) and Section 34 of the CGST Act mark a significant reform in the valuation rules for post-sale discounts.
- ❖ By eliminating procedural rigidities and aligning the law with trade realities, the amendments simplify compliance while preserving tax neutrality through ITC reversal.
- ❖ Rescinding the earlier circular and providing statutory clarity will not only reduce disputes but also encourage a transparent and consistent approach for both suppliers and recipients.
- ❖ These changes bring long-awaited relief to businesses, while ensuring that GST continues to operate on its foundational principle of tax on value addition.

Suggestions or feedback can be sent to the author at thulasiram@hnaindia.com.

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