

# RESEARCH PAPER DISCOUNTS UNDER GST



**PREPARED BY H N A & Co. LLP  
RESEARCH TEAM**

## Table of Contents

<b>Basic Concepts .....</b>	<b>3</b>
<b>Strategic Objectives for Providing Discounts .....</b>	<b>3</b>
<b>Credit Notes .....</b>	<b>4</b>
<b>Types of Credit Notes.....</b>	<b>4</b>
<i>Financial Credit Note .....</i>	<i>4</i>
<i>Taxable Credit Note (GST Credit Note): .....</i>	<i>4</i>
<b>Frameworks for Discounts: Insights from Pre-GST Tax Regulations.....</b>	<b>5</b>
<i>Central Excise Duty Act, 1944 .....</i>	<i>5</i>
<i>Central Sales Tax.....</i>	<i>8</i>
<b>Provisions Applicable under GST laws .....</b>	<b>9</b>
<i>Pre-supply discounts/In Bill Discounts/Trade Discounts .....</i>	<i>10</i>
<i>Post-supply discounts/ Off-bill discounts.....</i>	<i>12</i>
<i>Cash Discount.....</i>	<i>14</i>
<i>Quantity/Volume-Based Discount ('Buy more, save more').....</i>	<i>17</i>
<b>Circular No. 92/11/2019-GST .....</b>	<b>19</b>
<i>Free samples and Gifts.....</i>	<i>19</i>
<i>Secondary Discounts.....</i>	<i>20</i>
<i>Buy one get one free (BOGO) .....</i>	<i>20</i>
<b>Disclosure Requirement of Post Supply Discounts in GSTR-9C .....</b>	<b>22</b>
<b>Section 194R of the Income-tax Act – TDS on Benefit or Perquisite.....</b>	<b>22</b>
<i>Practical Challenge in Current Market Practice .....</i>	<i>23</i>
<i>Impact when TDS is deducted under Section 194R: .....</i>	<i>23</i>
<b>Circular No. 212/6/2024-GST .....</b>	<b>24</b>
<i>CA/CMA Certificate Requirements.....</i>	<i>26</i>
<i>Validity and Legal Standing of Certification:.....</i>	<i>27</i>
<i>Action points for CA's/CMA's before providing certifications.....</i>	<i>28</i>
<i>Action points for Taxpayers .....</i>	<i>28</i>
<b>Invoice Management System .....</b>	<b>29</b>
<b>Conclusion.....</b>	<b>31</b>
<b>Acknowledgements.....</b>	<b>32</b>

## Research Paper on Discount Management under GST

### Basic Concepts

#### Discounts

**Ministry of Law and Justice, Government of India Legal Glossary** defines discount as “*any deduction or abatement from the nominal value or price*”.

**As per ICAI Accounting Terminology:** A reduction from a list price, quoted price, or involved price. It also refers to the price for obtaining payment on a bill before its maturity.

**Business and Commerce Context:** A financial reduction applied to the selling price of goods or services, typically used as a marketing tool to increase sales, attract customers, or reward early payment.

#### Related Terms:

- **Trade Discount:** A reduction in price offered to retailers or wholesalers based on bulk purchases or early payments.
- **Cash Discount:** A reduction given to customers for prompt payment of an invoice.
- **Quantity Discount:** A price reduction granted for purchasing large quantities.

### Strategic Objectives for Providing Discounts

**Discounts** are offered for various strategic, financial, and marketing reasons. The primary goal of giving a discount is to incentivize buyers, drive sales, and achieve specific business objectives. Below are the key reasons why discounts are given:

- To Increase Sales Volume
- To Build Customer Loyalty
- To Clear Old or Excess Inventory
- To Compete in the Market
- To Boost Off-Peak or Slow Sales Periods
- To Encourage Bulk or Early Purchases
- To Promote New Products or Services
- To Build Brand Awareness
- To Improve Customer Satisfaction

- To Enhance Cash Flow and Liquidity
- To Promote Long-Term Contracts

Before delving into the framework of discounts under GST, let's first provide an overview of credit notes and their implications within the GST system.

### Credit Notes

- A Credit Note is a financial document issued by a seller to a buyer, typically in response to a return of goods, an overcharge, or a correction in the invoice. It serves as evidence of a reduction in the amount the buyer owes to the seller. Credit notes are crucial for maintaining transparency and accuracy in accounting and tax records.
- A credit note is a document issued by a seller to the buyer, acknowledging that a certain amount has been credited to the buyer's account. This may occur due to a return of goods, errors in the original invoice, discounts offered after the sale, or other adjustments.

### Types of Credit Notes

- Financial Credit Note:** A financial credit note is issued for discounts or price reductions after the original supply has taken place, where the discount does not qualify for a reduction in the taxable value under GST.
  - Purpose:
    - Issued for discounts that are not pre-agreed or are not linked to the original invoice.
    - Post-supply discounts that do not fulfil the conditions of Section 15(3) of the CGST Act.
    - Discounts for early payments or goodwill gestures that do not alter the GST liability.
  - **Impact:** GST liability remains unchanged, and no adjustment is made to the taxable value of the goods or services. The seller cannot adjust their output tax for such credit notes under Table 7 or Table 9B of GSTR 1.
  - **Example:** A seller offers a year-end performance discount based on the buyer's total purchases, but it's not part of a pre-existing agreement. The credit note will not adjust GST.
- Taxable Credit Note (GST Credit Note):** A credit note issued when there is a need to adjust the taxable value of a transaction, affecting the GST liability of the seller.
  - Purpose:
    - Price reduction after the issuance of the invoice, provided it meets the conditions of Section 15(3) of the CGST Act.
    - Supply of goods or services that are defective, damaged, or returned.

- Overcharging or correction in the originally invoiced amount.
- Post-sale discounts agreed upon before the supply, with proper linkage to the original invoices.
- **Example:** A customer returns a portion of the goods due to quality issues, and a GST credit note is issued to reduce the taxable value and adjust GST accordingly.

### **GST Implications in Case of Taxable Credit Note:**

The provisions of sub-section (1) of section 34 of the said Act provide as under:

*“Where one or more tax invoices have been issued for supply of any goods or services or both and the taxable value or tax charged in that tax invoice is found to exceed the taxable value or tax payable in respect of such supply, or where the goods supplied are returned by the recipient, or where goods or services or both supplied are found to be deficient, the registered person, who has supplied such goods or services or both, may issue to the recipient one or more credit notes for supplies made in a financial year containing such particulars as may be prescribed.”*

**Reporting in GST Returns:** The supplier must report the details of the credit note in GSTR-1 under the Table 7 in case of B2C supplies and Table 9B in case of B2B supplies. This reduces the taxable value and output tax liability for that period.

### **Frameworks for Discounts: Insights from Pre-GST Tax Regulations**

In the pre-GST regime, India had a variety of indirect taxes, including Excise Duty (Central Excise Act, 1944), Value Added Tax (VAT), Service Tax, and Central Sales Tax (CST). Each of these taxes had different rules regarding the treatment of discounts. Below is a detailed overview of how discounts were treated under each major tax law:

#### **Central Excise Duty Act, 1944**

Section 4 of the Central Excise Act 1944 provides for the valuation of excisable goods for the purpose of charging excise duty as follows:

*“Section 4. Valuation of excisable goods for purposes of charging of duty of excise. -*

*(1) Where under this Act, the duty of excise is chargeable on any excisable goods with reference to their value, then, on each removal of the goods, such value shall -*

*(a) in a case where the goods are sold by the assessee, **for delivery at the time and place of the removal**, the assessee and the buyer of the goods are not related and the price is the sole consideration for the sale, **be the transaction value;**”*

Further, Section 4(3)(d) defines “transaction value” as under:

“(d) “transaction value” means **the price actually paid or payable for the goods, when sold, and includes in addition to the amount charged as price, any amount that the buyer is liable to pay to, or on behalf of, the assessee, by reason of, or in connection with the sale, whether payable at the time of the sale or at any other time, including, but not limited to, any amount charged for, or to make provision for, advertising or publicity, marketing and selling organization expenses, storage, outward handling, servicing, warranty, commission or any other matter; but does not include the amount of duty of excise, sales tax and other taxes, if any, actually paid or actually payable on such goods.**”

It is also pertinent to note that prior to the amended definition above made in the year 2000, the definition of “transaction value” specifically provided for the exclusion of “*trade discount (such discount not being refundable on any account whatsoever) allowed in accordance with **the normal practice of the wholesale trade** at the time of removal in respect of such goods sold or contracted for sale.*”

### Notable Case Laws

#### a. Purolator India Ltd. Vs. Commissioner of Central Excise, Delhi – III

- **Issue:** Whether credit notes for quantity discounts issued after the sale could impact the assessable value.
- **Judgment:** The court ruled that unless the discount was clearly known and reflected in the invoice at the time of removal, it could not be deducted through the issuance of credit notes later.

#### b. Union of India v. Bombay Tyre International Ltd. (1984)

- **Issue:** This case clarified the treatment of various elements affecting the assessable value, including discounts.
- **Judgment:** The Supreme Court held that only **discounts known at the time of removal** and reflected in the sale price could be deducted from the assessable value. Credit notes issued after the removal did not qualify for reducing the duty.

#### c. Madras Rubber Factory Ltd. v. Union of India [1995 (77) E.L.T. 433 (S.C.)]

##### **Issue:**

MRF provided **turnover discounts** to its buyers, which were not reflected in the invoices at the time of removal of goods from the factory. The company argued that these discounts should be deducted from the assessable value of the goods for calculating excise duty.

The main issue before the Supreme Court was whether **turnover discounts**, granted after the sale and not reflected in the invoice at the time of removal of goods, could be deducted from the assessable value for excise duty purposes.

### **Supreme Court Judgment on Turnover Discounts:**

The Supreme Court ruled that **turnover discounts** could **not be deducted** from the assessable value of goods for the purpose of excise duty if they were **not known or determined at the time of removal** of the goods from the factory.

### **Reasoning:**

The Court held that **Section 4 of the Central Excise Act, 1944** (both pre-2000 "normal price" and post-2000 "transaction value") required the assessable value to be based on the **price at the time of removal of goods**.

- Since turnover discounts are typically determined **after the goods have been sold** and are **based on the total purchases over a certain period**, they do not meet the requirement of being **known and agreed upon at the time of removal**.
- As a result, the assessable value of goods for excise duty purposes must be based on the price **as reflected in the invoice** at the time of removal, without adjusting for turnover discounts that may be granted later.

Further, **Circular M.F. (D.R.) F. No. 354/81/2000-TRU, dated 30th June 2000** provides as follows:

*“As regards discounts, the definition of transaction value does not make any direct reference. In fact, it is not needed by virtue of the fact that the duty is chargeable on the net price paid or payable. Thus, if in any transaction a discount is allowed on declared price of any goods and actually passed on to the buyer of goods as per common practice, the question of including the amount of discount in the transaction value does not arise. Discount of any type or description given on any normal price payable for any transaction will, therefore, not form part of the transaction value for the goods, e.g. quantity discount for goods purchased or cash discount for the prompt payment etc. will therefore not form part of the transaction value. What is important is that it must be established that the discount for a given transaction has actually been passed on to the buyer of the goods. The differential discounts extended as per commercial considerations on different transactions to unrelated buyers if extended cannot be objected to and different actual prices paid or payable for various transactions are to be accepted for working assessable value. Where the assessee claims that the discount of any description for a transaction is not readily known but would be known only subsequently – as for example, a year-end discount – the*

*assessment for such transactions may be made on a provisional basis. However, the assessee has to disclose the intention of allowing such discount to the department and make a request for provisional assessment.”*

Thus, it was a settled law under Central Excise/Service Tax that **whenever any discount is passed on to the buyer, then it is allowed as a deduction** from the transaction value.

### Central Sales Tax

The definition of sale price under the Central Sales Tax Act, 1956 is provided under section 2(h) which reads as follows:

“(h) “sale price” means the amount payable to a dealer as consideration for the sale of any goods, less any sum allowed as cash discount according to the practice normally prevailing in the trade, but inclusive of any sum charged for anything done by the dealer in respect of the goods at the time of or before the delivery thereof other than the cost of freight or delivery or the cost of installation in cases where such cost is separately charged”

Thereby, based on the above definition, it may be understood that the sale price shall not include any sum issued as a cash discount according to the trade practices. However, this raises ambiguity with respect to the exclusion of discounts other than cash discounts.

### Notable Case Laws

#### **Godavari Fertilizers & Chemicals Ltd. v. Commissioner of Commercial Taxes [2004 (138) STC 114 (AP HC)]**

##### **Facts:**

- **Godavari Fertilizers** issued **credit notes** to dealers as a form of retrospective discount, offering rebates based on the total volume of purchases during the year.
- The company sought to exclude these discounts from its **taxable turnover** under the Central Sales Tax Act.

##### **Issue:**

Whether **volume-based discounts** given through **credit notes** at the end of the year can be deducted from the taxable turnover under CST?

##### **High Court's Judgment:**

- The Andhra Pradesh High Court held that **volume-based discounts** offered after the sale through credit notes cannot be deducted from the taxable turnover for CST purposes.
- The **taxable turnover** must be based on the **invoice price at the time of sale**, and any

discounts not reflected in the invoice are not deductible.

### **Provisions Applicable under GST laws**

Section 15 of the CGST Act, 2017 enumerates provisions in relation to the “Valuation of taxable supply”. Sub-section (3) particularly contains provisions in respect of “Discount”. It states:

#### **Exclusions from the Transaction Value [Section 15(3)]:**

The value of the supply shall not include any discount that is given:

*(a) before or at the time of the supply if such discount has been duly recorded in the invoice issued in respect of such supply; and*

*(b) after the supply has been effected, if-*

*(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*

*(ii) input tax credit as is attributable to the discount on the basis of the document issued by the supplier has been reversed by the recipient of the supply.*

### **Examples for understanding the basic law:**

#### **Example: 1 (At the time of the supply)**

LMD & Co. takes its staff to the R&B Store for Diwali shopping. The total bill amount before any discounts is ₹1,50,000. At the time of supply, the R&B Store offers a 10% discount, reducing the bill amount by ₹15,000. The discounted bill amount is ₹1,35,000, and the applicable GST rate is 18%.

#### **GST Implications:**

Since the 10% discount is given at the time of supply and is mentioned in the invoice, the value of supply for GST purposes will be ₹1,35,000. GST is calculated on this discounted amount at the rate of 18%, resulting in ₹24,300 of GST. The total invoice value, inclusive of GST, will be ₹1,59,300.

#### **Example: 2 (Post-Supply Discount- Not mentioned in the invoice)**

LMD & Co. takes its staff to the R&B Store to shop for Diwali. The total bill amount before any discounts is ₹1,50,000. R&B Store issues an invoice for ₹1,50,000, and LMD & Co. makes the full payment. The GST rate applicable is 18%, so the total invoice value, including GST, is ₹1,77,000 (₹1,50,000 + ₹27,000 GST).

After the supply is completed, the R&B Store offers a 10% discount as a goodwill gesture, which was not agreed upon before or at the time of supply. R&B Store issues a credit note for the discount.

**GST Implications:**

Since the 10% discount was not agreed upon before or at the time of supply, the R&B store issued a financial credit note for Rs.15,000 as the GST liability remains unchanged.

**Example: 3 (Post-Supply Discount mentioned in the invoice)**

LMD & Co. takes its staff to the R&B Store to shop for Diwali. The total bill amount before any discounts is ₹1,50,000. At the time of supply, R&B Store and LMD & Co. agree that if payment is made within 30 days, a 5% discount will be provided. This discount is mentioned in the invoice issued by the R&B Store.

**GST Implications:**

Since the 5% discount was agreed upon before the supply and is mentioned in the invoice, R&B Store issues a credit note for ₹7,500 to reflect this discount. The GST on this credit note is ₹1,350. The credit note reduces the taxable value and GST liability.

**Analysis of Section 15(3) in different scenarios****Pre-supply discounts/In Bill Discounts/Trade Discounts****Meaning:**

**As per ICAI Accounting Terminology:** A reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment.

A trade discount is a reduction in the price of goods or services offered by the seller to the buyer, usually provided at the time of purchase. It is a form of incentive used to encourage bulk purchases or maintain customer loyalty. The key aspects of trade discounts are:

- Purpose: To increase sales volume, attract bulk buyers, or promote early payments.
- Application: Trade discounts are typically deducted upfront and reflected in the invoice, so they are not recorded separately in financial statements.
- No Financial Entry: Unlike other discounts, trade discounts do not appear in accounting records as they are applied before the transaction is documented.

**Example:**

Let's say a manufacturer sells electronic gadgets to a retailer. The list price of each gadget is \$100. To encourage bulk purchasing, the manufacturer offers a trade discount of 10% if the retailer orders at least 100 units.

If the retailer orders 200 gadgets:

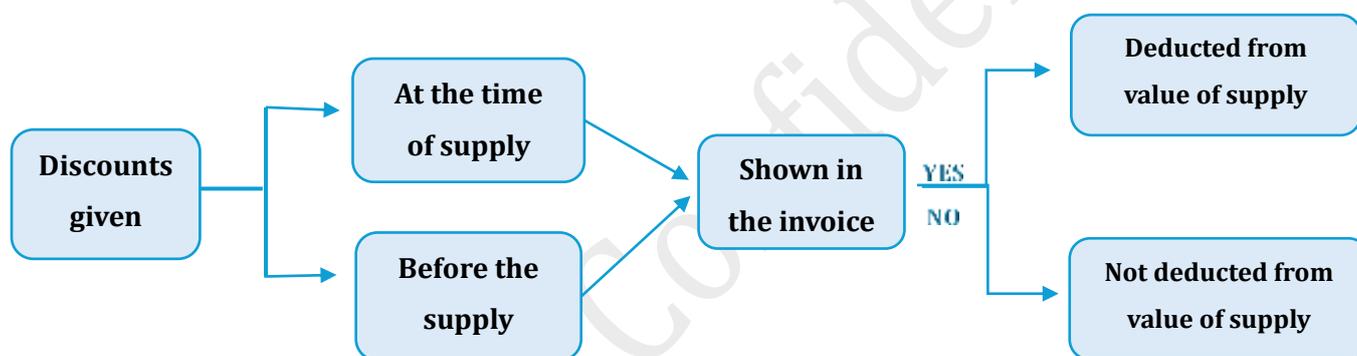
- List Price: \$100 per gadget

- Total List Price for 200 gadgets: \$20,000
- Trade Discount (10%): \$2,000
- Net Price after Discount: \$18,000

In this case, the retailer only pays \$18,000 for the 200 gadgets, as the trade discount has been deducted. The discount is reflected directly in the invoice but not recorded separately in the retailer's financial statements.

### GST Implications

According to Clause (a) of Section 15(3) of CGST Act, as trade discounts are offered at the time of supply and are clearly indicated in the invoice, trade discounts can be reduced from the transaction value to arrive at taxable value for the purpose of GST.



C.B.E. & C. Flyer No. 29, dated 1-1-2018, also confirms that trade discounts are part of normal trade and commerce and therefore are pre-supply discounts i.e., discounts recorded on the invoice which have been allowed to be excluded while determining the taxable value.

Taking cue from the erstwhile laws, in *Maya Appliances (P) Ltd v/s Addl Commissioner of Central taxes*, under KVAT [2018 (10) G.S.T.L. 6 (S.C.)] Supreme Court held that taxable turnover is turnover net of deductions. All trade discounts are allowable as permissible deductions as such discounts are in accordance with the regular trade practice or the contract or agreement entered into in this regard.

A similar ruling was also pronounced by Supreme Court in the case of *Southern Motors vs State of Karnataka* [2017 (358) E.L.T. 3 (S.C.)] where it was held that deduction cannot be disallowed merely because trade discount was not payable at time of each invoice or deducted from invoice price as the actual quantification would depend on various market circumstances. However, it

was held that transactions allowing trade discount to have to be proved on the basis of contemporaneous records and the final sale price after deducting the trade discount must mandatorily be reflected in the accounts.

Further, in the case of UOI v. Bombay Tyres International (P) Ltd. - (2005) [3 SCC 787 1984 (17) E.L.T. 329 (S.C.)], Supreme Court described about "trade discount" and held that discounts allowed in the trade should be allowed to be deducted from the sale price having regard to the nature of the goods, if established under agreements or under terms of sale or by established practice, the allowance and the nature of the discount being known at or prior to the removal of the goods. Such trade discounts shall not be disallowed only because they are not payable at the time of each invoice or deducted from the invoice price."

"Similarly, held in Sai Service Station (Mumbai CESTAT – 2013 (10) TMI 1155 & Rohan Motors Limited (Delhi CESTAT – 2014) – Sales/Target Incentives are in the form of trade discounts."

### Post-supply discounts/ Off-bill discounts

#### Meaning:

Post-supply discounts are those that are provided after the goods or services have been delivered to the recipient. These discounts are often based on the recipient fulfilling certain conditions, such as meeting sales targets, bulk purchases over a period, or timely payments. When a supplier offers a discount after the supply has been made, a credit note is issued to the recipient. This document serves as a formal acknowledgment of the reduction in the invoice value due to the post-supply discount.

#### Examples

- **Cash Discount:** A cash discount is a financial incentive offered by a seller to a buyer, allowing a reduction in the purchase price if payment is made promptly, typically in cash. It is commonly expressed as a percentage of the total invoice amount and is designed to encourage early payment and improve cash flow for the seller. **For example**, if a supplier offers terms of "2/10, net 30," it means the buyer can take a 2% discount on the total invoice amount if paid within 10 days; otherwise, the full amount is due in 30 days. If the invoice is for ₹1,00,000, the buyer can pay ₹98,000 within 10 days, saving ₹2,000 as a cash discount.
- **Volume Discount:** Volume or quantity discounts are price reductions given to customers who purchase large amounts of a product or service. These discounts incentivize bulk

buying, helping suppliers increase sales and reduce inventory. **For example**, a stationery supplier might provide a 15% discount on orders of 500 notebooks or more. If a retailer typically buys 300 notebooks at ₹100 each, they would normally pay ₹30,000. However, if they increase their order to 600 notebooks, the price per notebook drops to ₹85. This brings the total cost down to ₹51,000 instead of ₹60,000.

- **Turnover discounts** are reductions in price given to buyers based on their total purchase volume or turnover over a specified period, such as a quarter or a year. These discounts are provided to incentivize higher sales and are typically calculated as a percentage of the total turnover achieved by the buyer. Turnover discounts are generally given after the supply, often through credit notes, and are not linked to specific invoices. **For example**, a supplier might offer a 2% discount on the total annual purchase if the buyer's turnover exceeds ₹50 lakh in that year.
- **Promotional discounts** are temporary price reductions offered to boost sales of specific products or to attract new customers. They are usually provided during special events, festivals, or product launches. Promotional discounts can include offers like “Buy One Get One Free,” percentage discounts on selected items, or limited-time price reductions. These discounts are often given post-supply to promote brand awareness and stimulate demand. **For example**, a store might offer a 20% discount on new arrivals during the festive season to encourage higher sales and attract more customers.

### GST Implications

As per Section 15(3)(b) of CGST Act, 2017, The value of the supply shall not include any discount which is given after the supply has been effected, if-

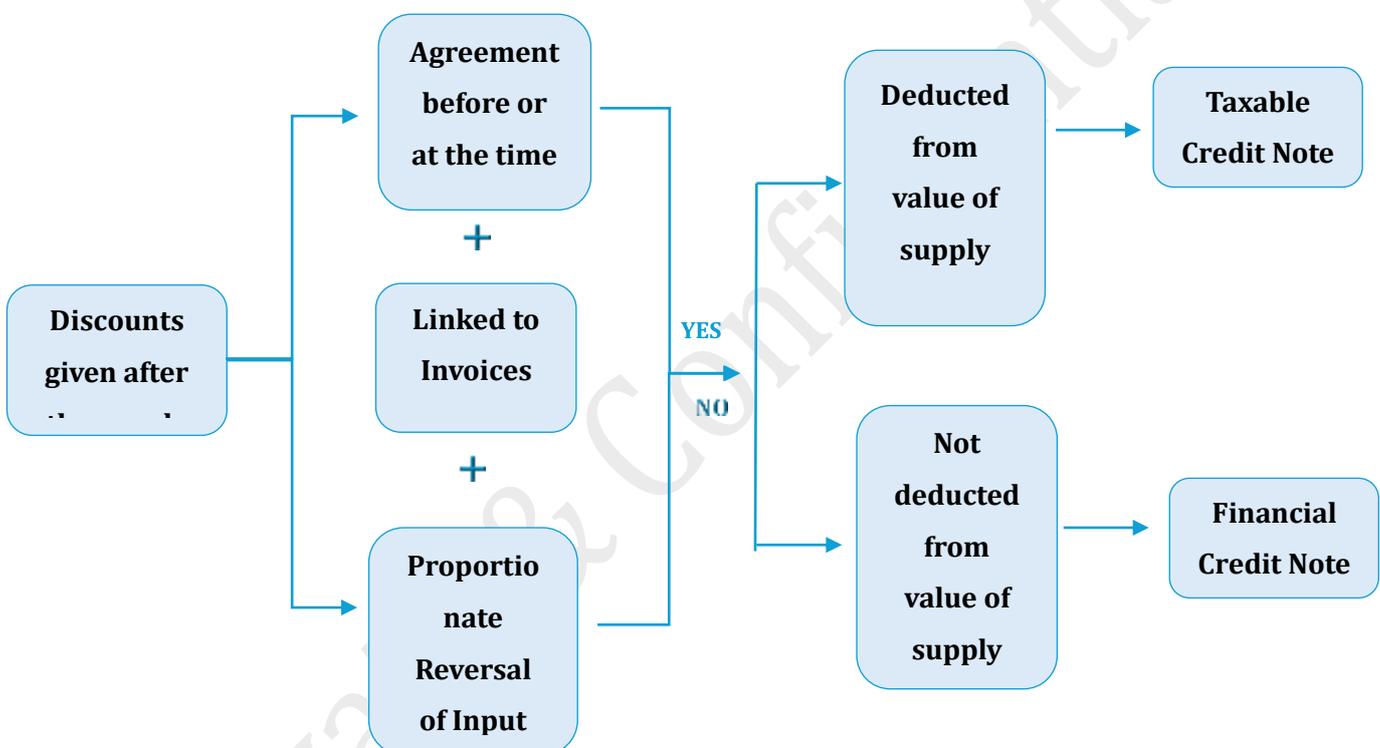
- ” (i) such discount is established in terms of an agreement entered into at or before the time of such supply and specifically linked to relevant invoices; and*
- (ii) input tax credit as is attributable to the discount on the basis of document issued by the supplier has been reversed by the recipient of the supply.”*

### Detailed Analysis

#### a. Agreement Before Supply:

- The discount must be established in the agreement entered into at or before the time of the supply.

- This agreement should be linked to the specific supply and should mention the terms and conditions under which the discount would be given.
- b. Linked to Invoices:** The discount should be clearly linked to the relevant invoices. This means the discount should be apportioned against the invoices raised for the supply.
- c. Proportionate Reversal of Input Tax Credit (ITC):** The recipient of the supply must reverse the input tax credit (ITC) attributable to the discount. This ensures that the tax benefits are not availed on the portion of the supply for which the discount is provided.



## Detailed Analysis of Post-supply Discount Scenarios

### Cash Discount

**As per ICAI Accounting terminology:** This encourages timely payments, reduces the risk of late payments, and fosters better relationships between suppliers and customers.

A cash discount is a price reduction offered to customers to encourage them to pay their invoices promptly, often in cash. This discount serves as an incentive for early payment, helping businesses improve cash flow and minimize late payment risks. Typically expressed as a

percentage, cash discounts have specific terms, indicating the amount of discount available and the time frame for payment. By providing cash discounts, companies can foster better relationships with customers and ensure timely revenue collection.

### Example with GST Implications

A supplier sells goods worth ₹1,00,000 with an 18% GST, the total invoice amount is ₹1,18,000.

**Case 1:** At the time of supply, both parties agreed to a cash discount of 2% for early payment and mentioned the same in the invoice. The recipient has made early payment as agreed and the supplier has issued the credit note for the 2% discount i.e. Rs.2,000 (Rs.1,00,000\*2%) along with GST @18% i.e. Rs.360 (Rs.2,000\*18%). The recipient, who initially claimed the full input tax credit of ₹18,000, must reverse ₹360 in their GSTR-3B due to the cash discount.

**Case 2:** After the supply, the supplier offers a cash discount of 2% for early payment, which was not agreed at the time of supply. is ₹2,000. The recipient has made early payment as agreed and the supplier has issued the credit note for the 2% discount i.e. Rs.2,000 (Rs.1,00,000\*2%). Since this discount was not agreed upon at the time of supply, the supplier issued a commercial credit note for Rs.2,000 without adjusting the GST.

### Recent Advance Rulings:

#### **M/s Mahaveer Prasad Mohanlal (MP/AAR/01/2022 Dated 06.01.2022)**

##### **Facts**

- M/s Mahaveer Prasad Mohanlal (Applicant ) a dealer of “India Gate Basmati Rice,” receives a cash discount from the supplier for early payment of invoices, reflected in a receipt-cum-credit note without considering GST on the discount.
- The cash discount, as per the agreement, is compensation for early payment and not directly related to the cost of goods. It, therefore, takes on the nature of interest, serving as an incentive for early settlement rather than a price reduction.
- The supplier does not adjust their GST output liability, and similarly, the applicant does not reverse the input tax credit on such commercial credit notes issued by the supplier to the applicant without including GST.

**Advance Ruling**

S.No	Query	Ruling
1.	<p>Whether the applicant can avail of the Input Tax Credit of the full GST charged on the invoice of the supply or a proportionate reversal of the same is required in case of post-purchase:</p> <p>a. Cash discount for early payment of supply invoices (bills) given by the supplier of goods to the applicant without adjustment of GST.</p> <p>b. Incentives/schemes provided through credit notes without adjustment of GST by the supplier to the applicant.</p>	<p>The applicant can avail of the Input Tax Credit of the full GST charged on the invoice of the supply and no proportionate reversal of ITC is required in respect of the commercial credit note issued by the supplier for Cash discount for early payment of supply invoices(bills) and Incentive/schemes provided without adjustment of GST if the said discount /is not covered under section 15(3)(b) of CGST Act, 2017 and the said discounts is not in terms of prior agreement. This is subject to the conditions that the GST paid for the said goods/service is not reversed or reimbursed/re-credited by the supplier to the applicant in any manner.</p>
2.	<p>Whether GST is leviable on cash discount offered by supplier to applicant through credit note without adjustment of GST for making the early payment from the date stipulated for payment of such supply as output supply? If yes, then what is the applicable HSN and rate of GST?</p>	<p>Since the amount received in the form of a credit note is a discount and not a supply by the applicant to the supplier, no GST is leviable on the receiver on cash discount/incentive/schemes offered by the supplier to the applicant through credit note against supply without adjustment of GST.</p>
3.	<p>Whether GST is leviable on incentives/schemes provided through credit note without adjustment of GST by the supplier to the applicant (dealer) as output supply? If yes, then what is the applicable HSN and rate of GST?</p>	

In the erstwhile regime, the Supreme Court in the following cases, held that cash discount is an admissible deduction from the assessable value.

- (i) Commissioner v. Indian Tool Manufacturers [2003 (152) E.L.T. A104 (S.C.)]
- (ii) Collector v. India Linoleums Ltd. [1999 (108) E.L.T. A60 (S.C.)]
- (iii) Commissioner v. H.R. Johnson Ltd. [2000 (119) E.L.T. A239 (S.C.)]

### **Quantity/Volume-Based Discount ('Buy more, save more')**

A **volume discount** is a pricing strategy where a buyer receives a lower price per unit when purchasing a larger quantity of goods or services. This discount encourages bulk buying, benefiting both the seller (through increased sales) and the buyer (by reducing overall costs). Volume discounts are commonly used in wholesale transactions, manufacturing, and retail settings to incentivize larger purchases and foster customer loyalty.

Volume discounts are most useful to the supplier when the supplier is keen on reducing his inventory. However, the principal benefit in this regard is "economies of scale".

### **Example with GST Implications**

A supplier sells 1,000 units of a product to a retailer at ₹100 per unit, totalling ₹1,00,000, with an 18% GST, making the total invoice value ₹1,18,000. After the supply, the retailer qualifies for a volume discount of 5% because their total purchase volume for the quarter exceeds 10,000 units.

**Case 1:** If the discount was agreed at the time of supply and mentioned in the original invoice, the supplier issues a credit note for the volume discount, amounting to ₹5,000 (5% of ₹1,00,000). The GST on the discount is ₹900 (18% of ₹5,000). The total credit note value is ₹5,900, reducing the taxable value and the corresponding GST liability. The retailer is also required to reverse the proportionate input tax credit of ₹900 in their GSTR-3B.

**Case 2:** If the discount was not agreed upon at the time of supply and not mentioned in the original invoice. Since this discount was not agreed upon at the time of supply, the supplier issued a commercial credit note for ₹5,000 without adjusting the GST.

## Advance Ruling

### Facts

- M/s. Kwalitey Mobikes Private Limited (“*applicant*”), an authorized dealer for Harley-Davidson India (“*authorised supplier*”), purchases high-end motorcycles, incurring 28% GST plus applicable Cess.
- The authorized supplier offers a 30-day credit period, sets sales targets, and provides volume discounts on purchases exceeding these targets, which are issued as credit notes. These credit notes do not impact the purchase or sale prices and thus do not affect the GST collected in the invoices.
- The applicant receives incentives from the authorized supplier as credit notes for exceeding sales targets, which do not affect the sale price of the goods and thus do not create any GST liability. Since the applicant is only receiving these incentives without providing any services to the authorized supplier, they effectively act as discounts on the goods purchased, impacting the overall sale price indirectly.

### Ruling

S.No	Query	Ruling
1	Whether the volume discount received on purchases is liable for GST? If yes, under which HSN/SAC?	The Volume Discount received on purchases in the form of a credit note without any adjustment of GST is not liable for GST.
2	Whether volume discount received on retail (on sales) is liable for GST? If yes, under which HSN /SAC?	The Volume Discount received on Retail (on sales) in the form of a credit note without any adjustment of GST is not liable for GST.
3	Whether the Company have to issue a taxable invoice to this effect?	Since the amount received in the form of a credit note is actually a discount and not a supply by the applicant to the authorized supplier, the applicant need not issue a tax invoice for this transaction.

## Other Case Laws

- Bee Pee Coating Ltd. Vs Collector of Central Tax, Vadodara [2004 (177) E.L.T. 816 (Tri. - Del.)]
- Indian Explosives Ltd. Vs. Collector of Central Excise reported in 1989 (40) E.L.T. 190 (Tribunal)
- TVL. Shivam steels Vs. The assistant commissioner (ST) (FAC), Hosur [2024 (7) TMI 1202 - Madras High Court]
- M/S. Supreme Paradise Vs Assistant Commissioner (St) North 1 Circle, Tirupur. W.P. Nos.13424, 13427 and 13435 of 2023 & [TS-32-HC(MAD)-2024-GST]

## Circular No. 92/11/2019-GST

### Free samples and Gifts

According to **sub-clause (a) of sub-section (1) of section 7 of the CGST Act,2017:**

The expression "supply" includes –

*“ all forms of supply of goods or services or both such as sale, transfer, barter, exchange, licence, rental, lease, or disposal made or agreed to be made for a consideration by a person in the course or furtherance of business”*

Therefore, goods or services provided free of cost (without consideration) are generally not classified as "supply" under GST, except for activities specified in Schedule I of the Act. Thus, it is clarified that free samples do not qualify as "supply" under GST unless they fall under the provisions of Schedule I.

Further as per section 17(5)(h) of CGST Act,2017, Input tax credit shall not be available in respect of “goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples”.

Input Tax Credit shall not be available to the supplier on the inputs, input services, and capital goods to the extent they are used in relation to the gifts or free samples distributed without any consideration.

## Secondary Discounts

Secondary Discounts are additional price reductions offered on top of primary discounts during a sale or promotional event. These discounts are typically provided to incentivize further purchases, reward customer loyalty, or encourage bulk buying.

These are the discounts that are not known at the time of supply or are offered after the supply is already over and the supplier will issue a credit note for the discount. Since the discounts are given after the supply and not known at the time of supply such secondary discounts shall not be excluded while determining the value of the supply of credit note.

### Example

**Retail scenario**, a customer purchases a product priced at ₹1,000. With a primary discount of 10%, the price is reduced to ₹900. At this point, GST at 12% is applied, adding ₹108, bringing the total to ₹1,008. Afterward, a secondary discount of 5% for feedback is offered, amounting to ₹45. A financial credit note of ₹45 is issued, so the final payment becomes ₹963.

1. **B2B scenario**, a wholesaler sells goods for ₹10,000 and applies a primary discount of 15%, reducing the price to ₹8,500. GST at 12% is then applied, adding ₹1,020, bringing the total to ₹9,520. The retailer is eligible to claim an input tax credit (ITC) of ₹1,020 on this amount. Afterward, the wholesaler offers a secondary discount of 3% for early payment, totalling ₹255, and issues a financial credit note for this discount. The retailer's final payment becomes ₹9,265 after applying the credit note.

### Buy one get one free (BOGO)

A sales promotion where customers can acquire an additional product for free or at a reduced price when they purchase an initial item, aimed at enhancing customer satisfaction and driving sales.

Example: A supermarket runs a BOGO promotion on **Lays Potato Chips**. When a customer purchases one pack of **Lays Classic Chips** for ₹100, they receive a second pack for free.

### GST Implications

According to **sub-clause (a) of sub-section (1) of section 7 of the CGST Act, 2017**:

The expression "supply" includes –

*“ all forms of supply of goods or services or both such as sale, transfer, barter, exchange, licence, rental, lease, or disposal made or agreed to be made for a consideration by a person in the course or furtherance of business”*

Therefore, goods or services provided free of cost (without consideration) are generally not classified as "supply" under GST, except for activities specified in Schedule I of the Act. Thus, it is clarified that free samples do not qualify as "supply" under GST unless they fall under the provisions of Schedule I.

Any supply made free of cost (i.e., without consideration) will not attract GST. However, under the 'buy one get one free' offer, two products are given at the price of one. In a nutshell, there is a supply of two products at the price of one.

In such cases, GST implications may be as follows:

- a) When cost of the product given free of cost is NOT added to the price: In this case, a view is possible that since the product is sold free of cost, it would not amount to supply due to lack of consideration. (Subject to transactions in Schedule I).
- b) When cost of the product given free of cost is added to the price: In such case, a view is possible that the second product is sold at a lower (discounted) price. However, in such cases, there may be challenges in claiming the deduction for such a discount as there would be a need to show such discount on the invoice. Given the industrial practices in respect to buy one get one free, especially in the retail sector, it could prove challenging.

The CBIC, has clarified the taxability in case of “Buy one get one” in its Circular No. 92/11/2019-GST, dated 7-3-2019 as follows:

*“Taxability of such supply will be dependent upon as to whether the supply is a composite supply or a mixed supply and the rate of tax shall be determined as per the provisions of section 8 of the said Act.”*

*“It is also clarified that ITC shall be available to the supplier for the inputs, input services and capital goods used in relation to supply of goods or services or both as part of such offers.”*

Therefore, the taxability of such discounts would depend upon whether the supply is a composite supply or a mixed supply and the rate of tax shall be determined as per the provisions of section 8 of the said Act.

## Disclosure Requirement of Post Supply Discounts in GSTR-9C

As mentioned above, financial credit notes are issued for post-supply discounts, such discounts do not impact the taxable turnover reported in GSTR-9. However, these discounts are deducted in the books of accounts but are not permissible under GST, they must be added back in Table 5J of GSTR-9C – “Credit notes accounted for in the audited Annual Financial Statement but are not permissible under GST” – to reconcile the turnover as per the books with that reported in GST returns.

## Section 194R of the Income-tax Act – TDS on Benefit or Perquisite (and Its Interface with Discounts & GST)

**Applicability:** Any person providing a benefit or perquisite (in cash or kind or both) to a resident arising from business or profession must deduct TDS @10%.

**Threshold:** Applicable if value exceeds ₹20,000 per recipient in a financial year.

**Valuation:** GST component is to be excluded from the valuation for TDS purposes.

## Whether discounts given under Section 15(3)(a) & 15(3)(b) of the CGST Act, 2017 can be regarded as perquisites or incentives?

As per CBDT Circular No. 12/2022, sales discounts, cash discounts, and rebates are excluded from the scope of TDS under Section 194R. Although these may appear to offer a benefit to the recipient (customer/dealer), they are fundamentally part of the pricing structure of a transaction and represent a reduction in sale consideration, not a benefit/perquisite in the nature intended by Section 194R.

Discounts that are:

- Mentioned in the invoice (Section 15(3)(a)), or
- Post-supply discounts, agreed upon prior to supply, linked to specific invoices, with proportionate ITC reversal (Section 15(3)(b))

...are considered genuine commercial adjustments. Therefore, such discounts do not attract TDS under Section 194R, as they are not in the nature of a perquisite or incentive, but price reductions governed by GST law.

Further, where quantity-based schemes like “Buy 10, Get 2 Free” are involved, the circular clarifies that such transactions are effectively composite sales (e.g., 12 units sold for the price of 10), and do not attract TDS under Section 194R. These are pricing decisions, not perquisites.

However, the circular clearly distinguishes commercial discounts/rebates from gratuitous or promotional benefits, which are not linked to pricing. TDS under Section 194R applies only to benefits outside the scope of standard sale transactions, not to genuine price adjustments.

#### **Examples of Perquisites/Benefits Attracting TDS u/s 194R:**

- **Free samples** given to professionals (e.g., medicine samples to doctors)
- **Event tickets** (concerts, sports matches, seminars) offered as incentives
- **Luxury gifts** such as gold coins, TVs, mobile phones, or appliances
- **Sponsored trips** (domestic/foreign) given for achieving sales or performance targets
- **Gifts or benefits provided to family members or employees of recipient entities**

These are not part of the pricing mechanism and do not reduce the transaction value. Instead, they are considered additional benefits or incentives, which the recipient enjoys by virtue of the business relationship. As such, they fall squarely within the scope of “benefit or perquisite arising from business or profession” under Section 194R, and the provider is liable to deduct TDS at 10% on the value of such items.

#### **Practical Challenge in Current Market Practice**

In several industries, suppliers issue financial credit notes as post-sale incentives based on performance (e.g., meeting sales targets). While these are functionally discounts, they are often:

- Not pre-agreed before supply,
- Not linked to specific invoices, and
- Not issued with GST adjustments.

As such, they do not satisfy the conditions of Section 15(3)(b) of the CGST Act, 2017. Hence, they are not treated as discounts under GST and instead may be classified as benefits or perquisites under Section 194R, attracting TDS at 10%.

#### **Impact when TDS is deducted under Section 194R:**

- The recipient must report the value as income under “Profits and Gains from Business/Profession” (PGBP) in their income tax return.
- This may prompt GST authorities to interpret such income as consideration for supply of a service (e.g., marketing or promotional support).
- Consequently, the recipient may receive a demand for GST, even though no GST was charged to supplier.

In such situations, it is important for the supplier and recipient to:

- Jointly evaluate the nature of the transaction,
- Determine whether it qualifies as a genuine trade discount under Section 15(3)(a) or 15(3)(b) of CGST Act and decide whether TDS under Section 194R is warranted or not.

Where the transaction is truly in the nature of a discount—i.e., agreed in advance, linked to invoices, and qualifying under GST provisions—**TDS u/s 194R should not apply.**

Conversely, if it is in the form of an incentive or benefit not tied to pricing, **TDS may apply**, and GST implications must be considered.

**So, the practical thumb rule is:**

GST Adjustment	TDS u/s 194R	Treated As
Yes	No	Commercial Discount
No	Yes	Benefit / Perquisite

### **Circular No. 212/6/2024-GST**

Before delving into the circular, let's first review a writ petition filed by Hindustan Unilever Limited.

#### **M/s. Hindustan Unilever Limited vs. Union of India [D.B. Civil Writ Petition No. 13617/2023]**

1. M/s. Hindustan Unilever Limited (“*petitioner*”) expressed concerns over the lack of an effective mechanism under the GST law for matching credit notes issued by suppliers with the Input Tax Credit (ITC) reversal by recipients. Previously, Section 43 of the CGST and RGST Acts required the department to perform this matching exercise, but this provision has been removed.
2. The petitioner argued that obtaining certificates from recipients as proof of ITC reversal, required to claim a reduction in tax liability, is practically challenging. They contended that this responsibility should lie with the tax department, as collecting such evidence from multiple recipients is cumbersome and impractical.
3. Although the petitioner has managed to obtain some certificates in some cases, they

asserted that the current requirement is unworkable and places an undue burden on suppliers, making compliance difficult.

4. The Hon'ble High Court in the case of Hindustan Unilever Ltd. v. UOI (supra), has not passed any ruling yet but has merely stated hereunder:

*"We find that the validity of the provision is being challenged more on the grounds of workability. For the present, we find that in the absence of any statutory obligation being cast on the respondent to undertake a matching exercise, if the petitioner is willing to claim a reduction in tax liability, proof of reversal by the recipient is to be provided by the supplier. In the present case, the petitioner has challenged the validity of the provision more on the grounds of difficulty in collecting such certificate/proof from the recipient. Even according to the petitioner, he has been able to collect such certificate/proof in some cases."*

*"Though we are not granting any interim order at this stage, learned counsel for Union of India is directed to place before the Court appropriate suggested mechanism."*

As discussed earlier, where the discounts are offered by the suppliers through tax credit notes, after the supply has been effected, the said discount is not to be included in the taxable value only if the condition of clause (b)(ii) of sub-section (3) of section 15 of the CGST Act

*"Clause (b)(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."*

The same issue arises here also that there is presently no facility available to the supplier as well as the tax officers on the common portal to verify whether the input tax credit attributable to the said discount has been reversed by the recipient or not.

To address the issue and ensure consistent implementation of legal provisions across various field formations, the Board, exercising its powers under Section 168(1) of the CGST Act, hereby provides the following clarification: Until a functionality is made available on the common portal that allows suppliers and tax officers to verify whether the input tax credit corresponding to discounts issued via tax credit notes has been reversed by the recipient, the following guidelines will apply.

*“Till the time a functionality/ facility is made available on the common portal to enable the suppliers as well as the tax officers to verify whether the input tax credit attributable to such discounts offered through tax credit notes has been reversed by the recipient or not, the supplier may procure a certificate from the recipient of supply, issued by the Chartered Accountant (CA) or the Cost Accountant (CMA), certifying that the recipient has made the required proportionate reversal of input tax credit at his end in respect of such credit note issued by the supplier.”*

### **CA/CMA Certificate Requirements**

#### **1. Details to Include:**

##### **○ Credit Notes Information:**

- Description of each credit note.
- Relevant invoice number(s) against which the credit notes were issued.
- Amount of ITC reversal for each credit note.

##### **○ Supporting Documentation:**

- Details of FORM GST DRC-03 or relevant returns/documents used for ITC reversal.

#### **2. Unique Document Identification Number (UDIN):**

- The certificate must contain a UDIN.
- Verification:
  - CAs: UDIN can be verified on the ICAI website
  - CMAs: UDIN can be verified on the ICMAI website

The Board has given an exception that,

*“where the amount of tax (CGST+SGST+IGST and including compensation cess, if any) involved in the discount given by the supplier to a recipient through tax credit notes in a Financial Year is not exceeding Rs 5,00,000 (rupees five lakhs only), then instead of CA/CMA certificate, the said supplier may procure an undertaking/ certificate from the said recipient that the said input tax credit attributable to such discount has been reversed by him.”*

Certificates issued by CAs/CMA or undertakings/certificates provided by the recipient of the supply will be considered valid evidence under Section 15(3)(b)(ii) of the CGST Act, 2017. Suppliers must present these certificates or undertakings to tax officers if requested during

proceedings such as scrutiny, audits, or investigations.

For past periods, if evidence is needed regarding credit notes issued by suppliers for post-sale discounts, the relevant taxpayer can obtain and present certificates from CAs/CMA or from the recipients of the supply to the investigating, audit, or adjudicating authorities. This will serve as proof of the necessary reversal of input tax credit by the recipients.

Though not explicitly stated in a single section of the CGST Act, obtaining a certification from a CA or CMA is often required by authorities to ensure compliance with ITC reversal. Certificates issued by CAs or CMAs are considered valid and trusted documentation in case of audits or investigations. This certification provides:

- Assurance that the supplier and recipient have followed the prescribed rules, particularly regarding ITC reversal.
- Proof that the recipient has reversed the ITC in their returns as per law, thus preventing undue benefit from tax credits.

#### **Validity and Legal Standing of Certification:**

- Certifications from **CAs** or **CMAs** are legally valid and recognized by tax authorities under various provisions of Indian law, including **Section 66** of the CGST Act, which allows for special audits and verification of records by qualified professionals.
- These certifications are crucial for defending the taxpayer's position in audits or disputes, as they are accepted as independent verification from a trusted financial expert.

As per current guidelines, when credit notes are issued for post-sale discounts related to past periods, certification from a CA or CMA is necessary to verify that the recipients have made the required input tax credit (ITC) reversals of the supply.

#### **Practical Challenge:**

Recently a writ petition was filed in the Delhi High Court challenging Circular No. 212/6/2024-GST by M/s. JSW STEEL LIMITED (Petitioner). The petitioner contended that a Chartered Accountant's Certificate pertaining to each and every credit note and transaction of supply in question had been undertaken right from 2017-18 onwards. It was submitted that the aforesaid would be an impossibility.

### **Action points for CA's/CMA's before providing certifications**

As the burden of proof now rests with Chartered Accountants (CAs) and Cost & Management Accountants (CMAs), these professionals must consider the following:

- Thoroughly understand the relevant provisions of the GST law, especially related to credit notes, ITC reversals, and the applicable rules and circulars issued by the GST authorities.
- Review and interpret the relevant circulars correctly to ensure that the certification process is in line with the prescribed guidelines.
- Obtain documentary evidence from the recipient confirming the proportionate reversal of ITC. This may include:
  - Copies of GSTR-3B filings showing the reversal of ITC.
  - Ledger extracts reflecting the reversal of ITC.
  - Communication or confirmations from the recipient.
- Cross-check this information with the corresponding credit note details issued by the supplier.
- Ensure that the conditions for issuing credit notes under GST, such as the time limit for issuing credit notes, are complied with.
- Verify that the recipient has not availed the ITC twice — once on the original invoice and again after reversing for the credit note.
- Maintain proper working papers and documentation supporting the verification process.
- Keep all relevant documents, such as invoices, credit notes, correspondence with the recipient, and a detailed summary of the verification process.
- Prepare a comprehensive audit trail that can be presented if required by tax authorities.
- Exercise due diligence and professional skepticism while reviewing the information provided by the recipient.
- If any doubts arise regarding the completeness or accuracy of the information, request additional documentation or clarification before issuing the certificate.

### **Action points for Taxpayers**

#### **Agreement and Terms:**

- Clearly define the terms and conditions related to discounts, incentives, and credit notes in the business agreements.

- Ensure that both parties are aware of their responsibilities regarding credit notes and ITC reversals.

**Documentation and Communication:**

- Maintain accurate records of all credit notes issued/received, including the reasons for issuance (e.g., discounts, price adjustments).
- Communicate clearly with the recipient regarding the issuance of credit notes and the need for proportionate ITC reversal.

**Monitor GST Returns:**

- Monitor GSTR-2B to ensure that the credit note issued by the supplier is reflected correctly.
- Check that the correct amount of ITC is availed and reversed as per the credit notes, ensuring there are no discrepancies in the returns filed.

Recently, the GSTN Team has introduced a new communication process known as the Invoice Management System (IMS) on the portal. Before concluding that this facility aligns with the features mentioned in this circular, it is essential to gain a comprehensive understanding of the Invoice Management facility in detail and how this facility can help suppliers as well as the tax officers to verify whether the input tax credit attributable to such discounts offered through tax credit notes has been reversed by the recipient or not.

**Invoice Management System**

The Invoice Management System (IMS) aims to streamline the management and communication of invoices on the GST portal. This new system will enable taxpayers to address invoice corrections and amendments efficiently with their suppliers. The system has been developed to reduce manual errors, ensure compliance, and provide businesses with real-time updates on their transactions. It is also aimed at reducing the complexities related to Input Tax Credit (ITC). It will enhance the ITC process by allowing taxpayers to verify the authenticity of invoices received. Invoices saved by suppliers in GSTR 1/IFF/1A will appear on the recipient's IMS dashboard and enable ITC claim based on action taken in the IMS module.

Note – IMS is presently available on the GST portal as an optional facility only and has no place in the GST law as yet.

## Assessing the Role of IMS Dashboard in Confirming ITC Reversals by Recipients

This seems to be the mechanism being introduced based on the Rajasthan HC judgement, directing the GST authorities to ensure ITC reversal is verified before liability reduction.

The recipient can only accept or reject the credit note but it cannot be kept pending in the IMS by the recipient as the supplier has reduced its outward tax liability at the time of issuance of a credit note.

If the recipient accepts the original Credit Note or upward amended Credit Note in the IMS dashboard then the accepted credit note will be reflected in the recipient's GSTR-2B, and the Input Tax Credit will be reduced from GSTR 3B of the recipient.

If the recipient rejects the original Credit Note or upward amended Credit Note in the IMS dashboard then the corresponding liability will be added to the supplier liability in the GSTR 3B of the subsequent tax period. When the corresponding liability is added to the supplier GSTR 3B then the supplier can understand that the recipient did not reverse the ITC.

To provide legal backing to the condition of ITC reversal in case of credit notes, Section 34(2) of the CGST Act, 2017 has been amended through Clause 121 of the Finance Act, 2025, to specifically provide that reduction in output tax liability of the supplier shall not be permitted unless certain conditions are fulfilled.

The amended provision now reads:

*“Provided that no reduction in output tax liability of the supplier shall be permitted, if the–*

*(i) input tax credit as is attributable to such a credit note, if availed, has not been reversed by the recipient, where such recipient is a registered person; or*  
*(ii) incidence of tax on such supply has been passed on to any other person, in other cases.”*

This amendment ensures that the supplier can claim reduction in output tax liability through a credit note only if the recipient has reversed the corresponding ITC, or in cases involving unregistered persons, the tax burden has not been passed on. This change aligns the legal framework with the anti-profiteering and tax neutrality principles under GST.

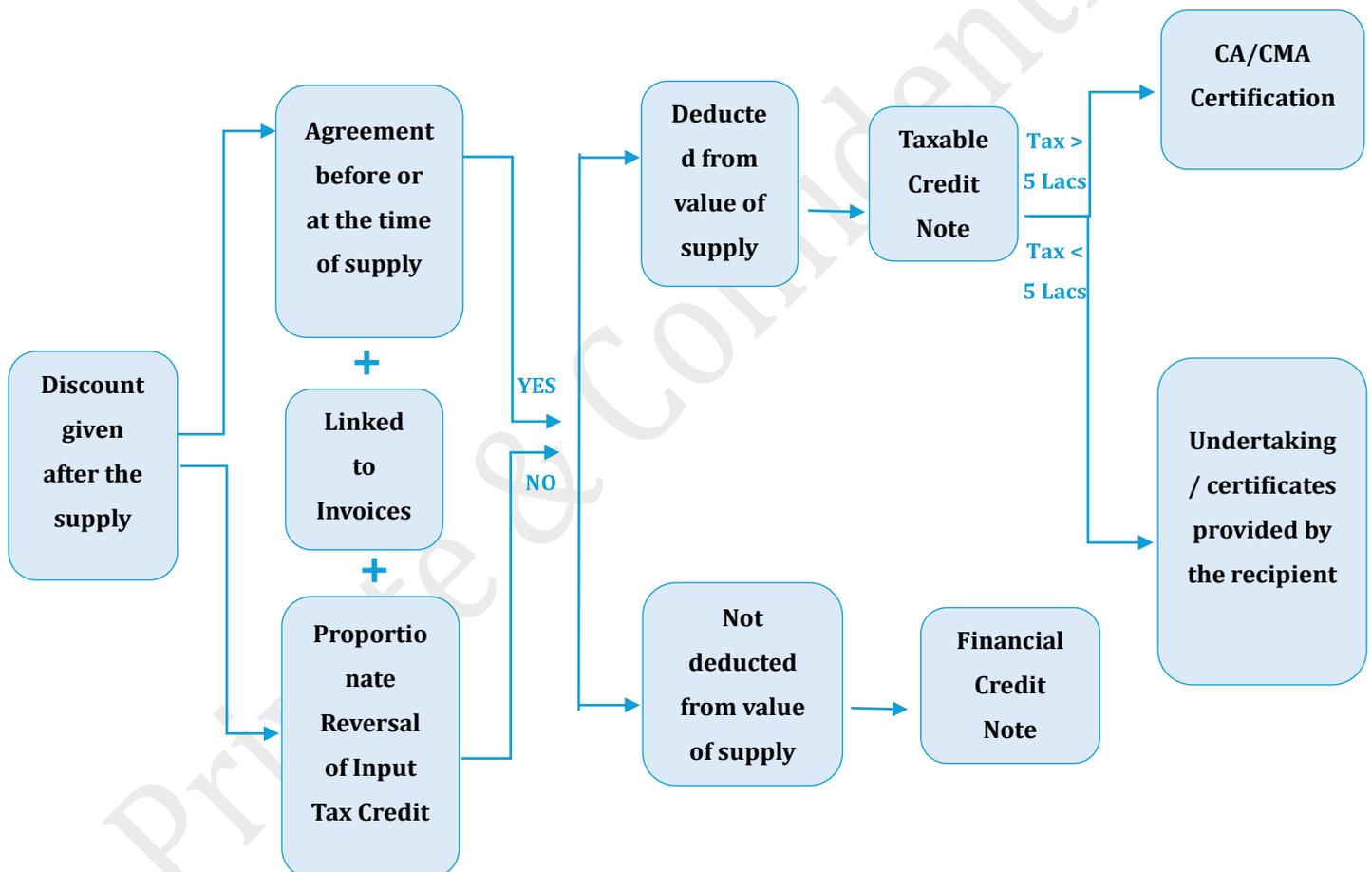
Additionally, as per the GSTN advisory dated 14th October 2024 titled “Hard-Locking of Auto-Populated Liability in GSTR-3B”, it was indicated that from January 2025 onwards, the values auto-populated in GSTR-3B for outward supplies (Table 3) auto populated from GSTR-1 + GSTR-1A and Input (Table 4) auto populated from IMS + GSTR-2B, respectively—would be locked and non-editable.

This hard-locking process has commenced with the auto-populated outward supplies for the July 2025 tax period, where Form GSTR-3B (to be filed in August 2025) reflects frozen values, as per the subsequent advisory issued on 7th June 2025.

The hard-locking of auto-populated Input Tax Credit (ITC) in GSTR-3B will be implemented after the rollout and successful operationalization of the Input Matching System (IMS), based on its practical effectiveness.

**Conclusion:**

**An overview of the treatment of discounts under the Goods and Services Tax (GST) framework**



Type of Discount	Meaning	Applicability of Circular No. 212/6/2024
<b>Trade Discount</b>	Reduction in the listed price offered by a supplier to a buyer, typically based on bulk purchases or industry partnerships	<b>NO</b> –These discounts are usually agreed upon at the time of the transaction.
<b>Cash Discount</b>	Reduction in the invoice price offered to a buyer as an incentive for making prompt payment, usually within a specified time frame	<b>YES</b> – If discount agreed at the time of supply <b>NO</b> – If the discount is not predetermined at the time of supply
<b>Quantity/Volume Based Discounts</b>	Where a buyer receives a lower price per unit when purchasing a larger quantity of goods or services	<b>YES</b> – If discount agreed at the time of supply <b>NO</b> – If the discount is not predetermined at the time of supply
<b>Turnover Discounts</b>	Reductions in price given to buyers based on their total purchase volume or turnover over a specified period, such as a quarter or a year	<b>YES</b> – If discount agreed at the time of supply <b>NO</b> – If the discount is not predetermined at the time of supply
<b>Secondary Discounts</b>	Additional price reductions offered on top of primary discounts	<b>NO</b> – These discounts are provided after the supply has been completed and were not predetermined at the time of supply. In such cases, financial credit notes are issued, and therefore, there is no requirement for input tax credit (ITC) reversal.

**Acknowledgements:**

Gratitude to CA. Akshay Hiregange for providing valuable inputs and thank you to CA. Subba Reddy Bonam and CA Giriraj Mundada for giving the opportunity.