

**GST NOT LEVIABLE ON CASH DISCOUNT/INCENTIVE/SCHEMES PROVIDED THROUGH
CREDIT NOTE WITHOUT ADJUSTMENT OF GST**

**AUTHORITY FOR ADVANCE RULING-MADHYA PRADESH (TAXPAYER FAVOURABLE
ORDER)**

Name and address of the Applicant	M/S RAJESH KUMAR GUPTA OF M/S MAHVEER PRASAD MOHANLAL, GANDHI GANJ, JABALPUR, 482002(MP)
Order Number	01/2022
Order dated	06.01.2022

QUESTION OF RULING

1. Whether the Applicant can avail the Input Tax Credit of the full GST charged on invoices of the supply or a proportionate reversal of the same is required in case of post purchase Cash discount for early payment and incentive/schemes provided through credit note without adjustment of GST by the supplier to the applicant?
2. Whether the GST is leviable on the cash discount and incentive/schemes provided through credit note without adjustment of GST by supplier?

AAR OBSERVATIONS

On this issue whether the discount included in the value of supply or not, we go through the provision of sub-sec 3 of section 15 of Central Goods and Service Act 2017 which reproduced below:-

"The value of the supply shall not include any discount which 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 document issued by the supplier has been reversed by the recipient of the supply".

As per the Section 15(3)(b) of CGST Act, for the cases where supply has already been effected and discount given after supply shall be in term of prior agreement before effecting supply of goods and specifically linked to relevant invoices, then such discount shall not include in the value of supply and ITC has to be reversed by the receiver. There are two conditions to satisfy the Section 15(3)(b) of CGST Act, firstly discount given after supply of goods shall be in term of prior agreement and secondly it should be linked to the relevant invoices.

We observe that in this case, the applicant submitted that the cash discount and Incentive/scheme provided by the supplier was through credit note post purchase without reversing the GST payable. He further submitted that this discount arrangement is not part of the Purchase Contracts or the invoices since it is not known at that point of time of supply, whether supply against the invoices will be considered for the discount or not. Similarly, the rate /quantum of purchase made by applicant is also not known.

Further as per of Circular No 92/11/2019-GST, it is further clarified that secondary discounts which is not known at the time of supply shall not be excluded while determining the value of supply as such discounts are not known at the time of supply and the conditions laid down in clause (b) of sub-section (3) of section 15 of the said Act are not satisfied. In other words, value of supply shall not include any discount by way of issuance of credit note(s) except in cases where the provisions contained in clause (b) of sub-section (3) of section 15 of the said Act are satisfied. There is no impact on availability or otherwise of ITC in the hands of supplier in this case.

We observe that in the similar matter in case of M/s Kwaliti Mobikers P Ltd (2019(30)GSTL 668(AAR-GST) AAR Karnataka, in case of MRF limited (2019(27) GSTL 578(App.AAR-GST) Appellate authority of advance Ruling Tamilnadu, in case of M/sSantosh Distributors (2020(32)GSTL 105(AAR GST Ker), the authority have given the ruling in favour of Applicant.

We observe that the value of taxable supply is governed by the provisions of Section 15 of the CGST/SGST Act. The deduction of discounts from the value of taxable supply is subject to the conditions prescribed in sub-section (3) of Section 15 *ibid*. In the case of the applicant, the supplier of goods is issuing Commercial Credit Notes for cash discount for early payment and quantity discount after post supply without adjustment of GST. As per the submission of the Applicant we observe that the Commercial Credit Notes issued by the supplier/Principal Company does not satisfy the conditions prescribed in sub-section (3) of Section 15 of the CGST/SGST Act; the supplier is not eligible to reduce the original tax liability. As the supplier of the goods is not reducing the original tax liability, the applicant will be eligible to avail the credit of the tax paid as per the invoice of the supplier subject to payment of the value of supply as reduced by the commercial credit notes plus the amount of original tax charged by the supplier. In other words, the applicant will not be required to reverse proportionate input tax credit.

Further, we observe that the Applicant when purchase more than his target is eligible for the incentive which is provided by the supplier in the form of a credit note without affecting the sale price of the goods purchased and GST paid on the invoices. Hence, the amount received by the Applicant is in the form of an incentive provided by the supplier and does not affect the sale price of the goods already sold and hence there is no liability to charge GST on the

same. Further, as per the condition of Section 15(3)(b) of CGST Act, the value of supply not included the discount in terms of agreement entered into at or before the supply. The agreement must be written or oral. In this case, the Applicant has not submitted any agreement with supplier but in their submission submitted that the said discount is not as per prior agreement and on the basis of submission of applicant that the said discount is not in terms of prior agreement, we find that no proportionate reversal of ITC is required on the said discount as they are not as per prior agreement.

Further Additional Commissioner, Jabalpur has submitted their reply on the applicant submission and asserted that as per Circular No 92/1 1/2019-GST, the discount can only be availed if all the conditions mention in the Section 15(3) of the Act are met. Further, they have also given detailed provisions of Circular No. 105/24/2019 - GST dated 28.06.2019 in their submission. CBIC vide Circular No. 112 31 2019 GST- withdrawn, ab-initio. Circular No. 105/24/2019-GST dated 28.06.2019. As detailed above, the supplier and applicant have not fulfilled the condition of Section 15(3) of the Act therefore, the benefit of reduced price by way of discount is not available to them. Therefore, supplier has not issued GST credit note under Section 34 of the Act and has not lowered his output tax liability.

As per GST Act the applicant has to made self-assessment of the supplies made by them and also proper ITC availed therefore it is mandatory on the part of the applicant to ensure that the supplier, by giving the discount through commercial credit note, has not reduced their output tax liability post sale i.e. at the time of filing annual return. If the supplier reduced their output tax liability than the applicant is mandatory required to reverse the proportionate ITC.

Further in respect of other questions, the Applicant is not providing any service to the supplier and is only receiving the incentive/discount. Indirectly, it has an effect on the sale price of the goods purchased by the Applicant from the supplier and is actually in the form of discount. We finds that no GST is leviable on the said discounts received from the supplier.

AAR RULING

On the basis of above discussion, in respect of Question - 1, the applicant_ can avail 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 commercial credit note issued by 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.

Since the amount received in the form of credit note is actually a discount and not a supply by the applicant to the supplier, no GST is leviable on receiver on cash discount/incentive/schemes offered by the supplier to applicant through credit note against supply without adjustment of GST.

[CLICK TO DOWNLOAD DETAILED ADVANCE RULING](#)

DISCLAIMER

GSTCORNOR® disclaims all liability in respect to actions taken or not taken based on any or all the contents of this Article to the fullest extent permitted by law. Do not act or refrain from acting upon this information without seeking professional legal counsel.

Feedbacks are invited at Singh@carajput.com or whatsapp at +91-9811322785 .

CONTACT AT US

www.carajput.com

P 6/90 Cp Delhi -110001

E- Mail – singh@carajput.com, MOB:- +91-9555555480

WE HOPE YOU ENJOY YOUR VISIT AND FIND THE INFORMATION HERE USEFUL.

-----Have A Happy Life-----