

No reversal of ITC on cash discount/incentive scheme determined post-sale – Madhya Pradesh AAR

28 January 2022



Summary

The authority has held that the applicant can avail full input tax credit (ITC) of the Goods and Services Tax (GST) charged on invoice and no reversal of ITC is required in respect of commercial credit issued on cash discount. Such secondary or post-sales discount is provided without adjustment of GST, as it is determined and settled post-sale. The Authority for Advance Ruling (AAR) also viewed that the amount in the form of a credit note is a discount and not a supply by the applicant, hence no GST is leviable by the supplier.

Facts of the case

- The applicant¹ is a dealer of rice and receives goods from the supplier of India Gate Basmati Rice.
- The supplier offers an incentive in the form of cash discount for early payment of the invoice for which it receives receipt cum Credit Note (CN) of cash discount without GST.
- The applicant submits that as per the circular² where conditions³ for issuance of CN are not satisfied, then CN in the form of financial/commercial credit notes can be issued.
- In the present case, the applicant has submitted that discount arrangement is not part of the purchase contract or invoices.
- The applicant has sought advance ruling regarding the availment of ITC of GST paid on invoices of the supply or reversal of ITC in case of post-purchase cash discount.
- Further, the applicant has raised questions on applicability of GST on cash discounts and incentive schemes provided through the credit note without adjustment of GST by the supplier.

Madhya Pradesh AAR observations and ruling⁴:

- **Secondary discounts not excluded from value of supply:** As per the provisions⁵ of the act, post-supply discounts established in a prior agreement or before the supply, shall be included in the value of taxable supply. The AAR also relied on the circular² stating that secondary discounts not known at the time of supply shall be excluded while determining value of supply.
- **Not required to reverse ITC:** The AAR was of the view that as the discount is not in terms of a prior agreement, the supplier is not eligible to reduce output tax liability. Hence, proportionate reversal of ITC is not required.
- **No GST leviable on cash discount:** The amount received by the applicant is in the form of an incentive provided by the supplier as post-sale and does not affect the sale price of the goods already sold. Hence, there is no liability to charge GST on the discount received by supplier.

¹ Shri Rajesh Gupta, proprietor of M/s Mahaveer Prasad Mohanlal

² Circular No 92/11/2019-GST

³ Section 15(3)(b) read with Section 34(1) of CGST Act

⁴ Case Number 07/2021 and Order Number 01/2022

⁵ Section 15(3)(b) of CGST Act

Our comments

The post-supply discounts have always been a matter of contention between authorities and taxpayers under the erstwhile regime. The above ruling is a welcoming ruling issued in line with the GST provision. It clearly highlighted that ITC reversal is not required if the discount is not offered at or before the time of supply.

Such view 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. However, each case needs to be independently evaluated depending upon availability of a prior agreement and terms of supply.

Contact us

To know more, please visit www.grantthornton.in or contact any of our offices as mentioned below:

NEW DELHI

National Office,
Outer Circle, L 41,
Connaught Circus,
New Delhi - 110001
T +91 11 4278 7070

NEW DELHI

6th Floor, Worldmark 2,
Aerocity,
New Delhi - 110037
T +91 11 4952 7400

BENGALURU

5th Floor, 65/2, Block
A, Bagmane Tridib,
Bagmane Tech Park,
CV Raman Nagar,
Bengaluru - 560093
T+91 80 4243 0700

CHANDIGARH

B-406A, 4th Floor,
L&T Elante Office Building,
Industrial Area Phase I,
Chandigarh - 160002
T +91 172 4338 000

CHENNAI

9th Floor, A Wing, Prestige
Polygon, 471 Anna Salai,
Mylapore Division,
Teynampet,
Chennai – 600035
T +91 44 4294 0000

DEHRADUN

Suite No 2211, 2nd Floor,
Building 2000,
Michigan Avenue,
Doon Express Business
Park, Subhash Nagar,
Dehradun - 248002
T +91 135 2646 500

GURGAON

21st Floor,
DLF Square, Jacaranda
Marg,
DLF Phase II,
Gurgaon - 122002
T +91 124 462 8000

HYDERABAD

7th Floor, Block III,
White House,
Kundan Bagh,
Begumpet,
Hyderabad - 500016
T +91 40 6630 8200

KOCHI

6th Floor,
Modayil Centre Point,
Warriam Road Junction,
MG Road
Kochi - 682016
T +91 484 406 4541

KOLKATA

10C Hungerford Street,
5th Floor,
Kolkata - 700017
T +91 33 4050 8000

MUMBAI

11th Floor, Tower II,
One International Center,
SB Marg Prabhadevi (W),
Mumbai - 400013
T +91 22 6626 2600

MUMBAI

Kaledonia, 1st Floor,
C Wing,
(Opposite J&J Office),
Sahar Road,
Andheri East,
Mumbai - 400069
T +91 22 6176 7800

NOIDA

Plot No 19A, 2nd Floor,
Sector - 16A,
Noida - 201301
T +91 120 485 5900

PUNE

3rd Floor,
Unit No 309-312,
West Wing, Nyati Unitree,
Nagar Road, Yerwada
Pune - 411006
T +91 20 6744 8800

For more information or for any queries, write to us at GTBharat@in.gt.com



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