TREATMENT OF DISCOUNTS ON OFFTAKE FROM THE PERSPECTIVE OF RECIPIENT IN GST-PART II

Posted on August 6, 2018 by Arpit Haldia

Category: GST Updates

This part of the article discusses the situation wherein the terms of discount had been decided before or at the time of supply and are linked to specific invoices, but the supplier chooses not to reduce the tax liability as per provisions of Section 15(3) of CGST Act, 2017 on the discount given to the recipient.

1. **Discount by A Ltd. with regard to offtake of goods by M/S B Ltd.:**

Let's try to analyse different situation with the help of an example wherein **"A Ltd."** (who is a wholesaler) supplies electronic goods to "**B Ltd.** " (being a retailer) and **"B Ltd."** supplies goods to **"C"** (being a customer). There can be following situations which may be possible in the above transaction:

a) Terms of Discount decided on or before supply and discount is linked to specific Invoice

- Supplier opts to reduce the tax charged earlier on the supply of goods as per the provisions of section 15(3) of CGST Act, 2017
- Supplier does not opts to reduce the tax charged earlier on the supply of goods

b) Terms of Discount decided after the supply and discount is linked with specific Purchase Invoice:

Supplier has no option to reduce tax charged earlier on the supply of goods.

c) Terms of discount whether decided on or before or after the supply of goods and is not linked with specific purchase Invoice:

Supplier has no option to reduce tax charged earlier on the supply of goods.

This part of the article only discusses the situation wherein terms of discount have been decided on or before supply and discount is linked to specific purchase invoice. The rest of the situations would be dealt with in the ensuing articles.

For the sake of clarity, it is clarified that there are provisions under Section 15(3) are divided into two parts i.e. Section 15(3)(a) which provides for discount on the invoice itself and Section 15(3)(b) which provides for discount through credit note.

As per provisions of Section 15(3)(a), discount should be given before or at the time of supply and it should be duly recorded in the invoice issued in respect of such supply. Further as per provisions of Section 15(3)(b) discount should be established in terms of an agreement entered into, at or before the time of supply and it should be specifically linked to relevant invoices.

However, in my opinion even though the terms of discount were decided before or at the time of supply and linked to specific invoices, it's not mandatory from the point of the view of the supplier to avail reduction in transaction value and consequential reduction of tax liability, he may opt to reduce the discount from transaction value or he may not opt to do so.

If he opts to do so in term of Section 15(3)(a), he would deduct the discount in the invoice from the value of taxable supply before calculation of tax and in terms of section 15(3)(b), he would issue a credit note to the recipient wherein recipient would have to reverse the credit claimed earlier and the supplier would be eligible to reduce the tax liability.

If the supplier does not opts to reduce his tax liability by virtue of provision of section 15(3)(a), he would deduct the discount amount after levy of tax or issue a credit note without reducing the tax or by virtue of Section 15(3)(b) he would issue a credit note without reducing the tax liability thereon.

Let's try to analyse these situations on an individual basis and consequential impact of discount offered by

the supplier from the perspective of the recipient. A Ltd. gives discount to B Ltd. on off take of certain quantity during a period or discount for early payment of the outstanding amount etc. A Ltd. may also give other discount in the name of rate difference or special discount which have been decided before or at the time of supply of goods and are linked to specific invoices of purchase.

Case Study 1: Discount by A Ltd. on offtake of goods made by M/S B Ltd. and M/S A Ltd. reduces the tax charged earlier on supply of goods by issue of credit note:

It is assumed that terms of discounts were fixed before or at the time of supply and were linked to specific invoice and A Ltd. offered discount to B Ltd. say of Rs 10 for units purchased during the month of October. A Ltd. passes discount through credit note to B Ltd. and reduces the tax on discount passed on through the credit note.

Particulars	Deduction claimed from Selling Price
Sales Price	100
Tax @ 20%	20
Gross Value	120
Less: Discount passed post supply through Credit Note	10
Less: Tax Liability reduced through Credit Note	2
Net Value	108

A Ltd. in the above situation has collected net selling price of Rs 90 and net tax collected by him on the selling price of Rs 90 is Rs 18. B Ltd although would initially claim credit of Rs 20 for the tax paid but would have to reduce the tax of Rs 2 later on when A Ltd would issue the credit note. Therefore, net credit claimed by B Ltd. would be Rs 18. This is the simplest of the situation.

Case Study 2-Discount by A Ltd. on offtake of goods made by M/S B Ltd. and M/S A Ltd. does not to reduces the tax charged earlier on supply of goods:

It is assumed that terms of discounts were fixed before or at the time of supply and were linked to specific invoice and A Ltd. offered discount to B Ltd. say of Rs 10 for units purchased during the month of October. A Ltd. passes discount through credit note to B Ltd. and opts not to reduce the tax on discount passed on through the credit note.

Particulars	No Deduction clamed from Selling Price
Sales Price	100
Tax @ 20%	20
Gross Value	120

Less: Discount passed post supply through Credit Note	10
Less: Tax Liability reduced through Credit Note	-
Net Value	110

A Ltd in the above situation has collected net selling price of Rs 90 and but the tax collected by him on the selling price of Rs 90 is Rs 20. B ltd would claim credit of Rs 20 for the tax paid.

Thus in both **Case Study 1** and **Case Study 2**, price paid by B Ltd to A Ltd is Rs 90 **(i.e. Rs 100- Rs 10).** In both the Case Study, B Ltd. has received back Rs 10 through the credit note. However, Input Tax Credit claimed by B Ltd in **Case Study 1** is Rs 18 and in **Case Study 2** is Rs 20.

The only difference in **Case Study 1** and Case Study 2 is that under **Case Study 1**, B Ltd. has also received back Tax of Rs 2 earlier paid to A Ltd. but in **Case Study 2**, B Ltd. has not received back Tax of Rs 2 earlier paid to A Ltd, therefore **B Ltd.** would be claiming additional credit of Rs 2/- under **Case Study 2** as compared to **Case Study 1**.

Supposedly, B Ltd. sells those goods for Rs 120/- to C and collects tax at the rate of 20% on Rs 120/-. In such a case, B Ltd. would pay difference tax of Rs 4/-. The question is what would be the treatment of Rs 10/- discount passed on by A Ltd. to B Ltd.. Whether B Ltd. would have to reverse credit on Rs 10/- in the books of accounts or would have to charge tax on Rs 10/- discount received from A Ltd. treating the same as supply.

2. **Whether tax has to be levied and paid by B Ltd. on Rs 10/- received as discount from A Ltd.:**

a) Whether receipt of discount is an independent supply under CGST Act, 2017:

At the outset, discount being received from the supplier by the recipient is not an independent supply within the scope of section 7 of the CGST Act, 2017. Therefore, individually receipt of Rs 10/- by B Ltd. from A Ltd. cannot be included within the scope of supply of Section 7 of CGST Act, 2017.

b) Whether discount received can be considered as subsidy in terms of section 15(2)(e) of CGST Act, 2017:

Another view which has been coming is that whether the amount received as discount on which tax has not been reduced by the supplier can be considered part as the transaction value by virtue of provision of Section 15(2)(e) of CGST Act, 2017. The contention is that such discount received is part of reimbursement of selling price and whether the selling price is recovered from the purchaser or any other person, but still it has to be included in the transactional value.

c) Specific Provision for non-inclusion of discount decided before or at the time of supply and specifically linked to purchase invoice

If we observe scheme of the Section 15 of CGST Act, 2017 it is as follows:

Section 15(1): **Value of Supply shall be:**

Section 15(2): **Value of Supply shall include:**

Section 15(3): **Value of Supply shall not include:**

All these three sections are from the point of the view of arriving at the value at which the supplier would

levy and collect tax from the recipient. Section 15(1) provides for value of supply and Section 15(2) adds what would be included in the value of supply and Section 15(3) deducts what would not be included in the value of supply. Thus all these three provisions add on to what would be the final value of supply for the supplier for the purpose of levy of tax. Once an agreement has taken place before the supply, then the liability to discharge the tax also happens to be that of the supplier. That's why Section 15(1), 15(2) and 15(3) covers all the points of taxation which add up to the value of supply for the recipient. Anything which happens before the supply is complete is either added to the value of the supply or is deducted from the value of supply and its liability of the supplier to discharge uptil then.

Therefore, payment of tax on the discount amount fixed before or at the time of supply is the responsibility of the supplier and if he opts either to pay tax on that value or opts not to pay tax on that value, it is purely his responsibility and recipient has nothing to do with it. Nowhere any condition can be imposed on recipient to be fulfilled.There can be no instance wherein if liability or responsibility has been fixed on supplier for payment of tax and if the supplier does not discharge responsibility, tax would be recovered from recipient treating it part of his selling price.

It has to be appreciated that when terms of discounts have been finalized before or at the time of supply, then recipient would always treat purchase price of goods as net of those discounts. Discounts fixed before or at the time of supply is not a subsequent event which happen post supply of goods.Further since the event takes place prior to the completion of the supply, therefore recipient it's a deduction from the purchase price and not a reimbursement of the selling price.

d) Does the law intend to shift the liability for payment of tax on discount fixed before or at the time of supply from the supplier to the recipient

At the outset, provision of section 15(3) does not shifts the liability to pay tax from the supplier to the recipient but excludes the discounts fixed before or at the time of supply from the value of supply of the supplier subject to certain conditions being satisfied. Thus, supplier is liable to pay the due tax on discounts fixed before or at the time of supply at all times except when he fulfills conditions as provided under section 15(3).

It has to be borne in mind that section 15(2) and 15(3) are not akin to section 9(3)/9(4) of CGST Act, 2017 which shifts the burden on tax from supplier to recipient but is a specific section which provides that certain value would be excluded from the value of supply.

e) What happens when we try to make both the ends meet and include such discount on offtake as part of sales price of the recipient treating it as subsidy linked to price.

Now coming to the fact whether such off take discount would fall within the purview of Section 15(2)(e) of CGST Act, 2017, ***let's for a moment accept that the discount provided by the supplier on off take can be included the value of supply for the recipient as in the form of price linked subsidy.***

Such discount although decided at or before the time of supply and specifically linked to invoices would still be included as value of supply in both the cases i.e.

1. **Situation 1:** Wherein supplier has reduced the tax by issue of credit note and
2. **Situation 2:** Wherein supplier has although issued the credit note but has not reduced the tax thereon.

Assuming that the intention of lawmakers was to add discount received as subsidies directly linked to selling price to value of taxable supply, but then no distinction has been made under section 15(2)(e) of CGST Act between the two situations i.e. tax has been reduced by the supplier or not. Therefore treatment of such

subsidy would be same in hands of recipient whether or not supplier has reduced tax on such discount.

It is situation 1 which leads us to the absurd situation which would be created by accepting this hypothesis of including discount received on purchase invoices as part of sales price treating it as a subsidy and help us in arriving at the conclusion that why discount decided before or at the time of supply and specifically linked to invoices should not be part of selling price even though tax has not been reduced by the supplier. Let's try to understand the implication with the help of an example

Transaction 1: Supply by A Ltd. to B Ltd.

Particulars	Deduction claimed by supplier from Transaction Value
Sales Price	100
Tax @ 20%	20
Gross Value	120
Less: Discount passed post supply through Credit Note	10
Less: Tax Liability reduced through Credit Note	2
Net Value	108
Net Tax Collected by A Ltd from B Ltd	18 (i.e. 20-2)

Transaction 2: Supply by B Ltd to C

Particulars	Not treating discount received as part of sales price	Treating discount received as part of sales price
Sales Price	120	120
Add: Discount by A Ltd to B ltd	-	10
Gross Sales Price	120	130
Tax @ 20%	24	26
Value	144	156

As is evident in the above example, A Ltd. themselves have reduced Rs 10/- from value of Supply and has also reduced the tax. In such case, would it be correct if B Ltd. would have to again pay the tax on Rs 10/- treating it as part of his supply as price linked subsidy under Section 15(2)(e) of CGST Act, 2017. This would be the most absurd situation and would amount to double taxation wherein supplier has reduced the tax and recipient is also bound to pay the tax treating it as part of value of supply.

As we all know, GST is a tax on the value added by each of the supplier and is destination based tax wherein tax is borne by the last consumer. Let's try to arrive at the value addition made by A Ltd, B Ltd tax incidence to be borne by C. In the general scenario, everybody would accept that value addition by B Ltd. is Rs 30 and difference tax should be Rs 6/-.

Not treating discount received as part of sales price

Particulars	Supply by A Ltd to B Ltd	Supply by B Ltd to C
Sales Price	90	120
Less: Purchase Price	0 (Assumed for Simplicity)	90
Value Addition	90	30
Tax on Value Addition @ 20%	18	6

But as we move ahead and accept the hypothesis of including the value of discount as part of sales price for B Ltd. treating it as a price linked subsidy, price on which tax would have to be charged by B Ltd would be **Rs 130 (i.e. Rs 120 plus Rs 10 of Discount)** and the value addition by B would come to **Rs 40 (i.e. Rs 130 Minus Rs 90 for purchase cost)** and tax thereon of Rs 8/-. The actual value addition is only Rs 30 and tax thereon is Rs 10, now the question is who bears the difference tax on Rs 10/-.

Treating discount received as part of sales price

Particulars	Supply by A Ltd to B Ltd	Supply by B Ltd to C
Sales Price	90	120
Add: Value Addition through Discount passed by A Ltd to B Ltd	-	10
Gross Sales Value	90	130
Less: Purchase Price	0 (Assumed for Simplicity)	90
Value Addition	90	40
Tax on Value Addition @ 20%	18	8

If at all the intent of the lawmakers would have been to treat it as subsidy linked to price then exception would have been provided under the law that unless supplier deducts discount from the value of supply, such discount would be added to the value of the supply of the recipient under section 15(2)(e) of the CGST Act, 2017. But no such distinction has been made. The law does not provide any exception to the fact that once tax has been reversed by the supplier, recipient does not have to pay tax treating the discount as subsidy received.

Therefore, similar treatment of discount in the hands of recipient whether or not supplier reduces the tax would lead us to understand that why such an interpretation would lead to absurd result and in turn indicate that such amount is not liable to be included in value of supply. Hence, when section 15(3) seeks to cover discounts fixed before or at the time of supply and linked to specific invoice, it cannot be included in the value of supply for recipient in both the scenario, i.e. wherein supplier has opted to reduce the tax under Section 15(3) of CGST Act, 2017 or supplier has opted not to reduce the tax on the discount.

f) What about discounts received on invoice itself and then whether they should also be treated as part of value of supply for the recipient

It is added that discount cannot only be passed through credit note but can also be passed on the invoice itself. The supplier may at his own choice as per section 15(3) of CGST Act, 2017 chose either to deduct

discount from value of supply and then levy tax or he may chose to levy tax on the entire value and then thereafter deduct discount from the value of supply through credit note.

When we talk about subsidies to be added to the selling price, why only discount received through credit note should be treated as subsidies received by recipient. Why then subsidies received as discount on the invoice itself should not be treated on the same lines and added to the value of supply for the recipient . Law does not makes any distinction when it refers to the subsidies linked to the price and if discount received through credit note is considered to be subsidy then the discount received on invoice also stands on same footing. This would be highly untenable and would then defeat the purpose of Section 15(3).

Thus merely because tax has not been reduced by the supplier on discount offered would not mean that the same would be added to the value of the supply. There needs to be an enabling provision under the statute which specifically covers the situation and removes the anomaly, if at all such discount has to be added to value of supply.

g) **What about the discounts for which terms were fixed before or at the time of supply and were specifically linked to invoices but the supplier failed to issue the credit note within the time prescribed under section 34 for issuance of the credit note.**

Supposedly terms of discount were decided at or before the time of supply and were linked to relevant invoices but the conditions were met by the recipient after expiry of the time limit as prescribed under section 34 of CGST Act, 2017 for issuance of credit note or the supplier failed to issue the credit note within the prescribed time limit as provided under section 34 of CGST Act, 2017, in such a scenario whether the discount offered would then be termed as subsidy directly linked to price.

Accepting the hypothesis of adding such discount to the value of supply wherein discount has not been reduced by the supplier on invoice, there would be an anomaly wherein if credit note has been issued within the time limit as prescribed under section 34 of the CGST Act, 2017, amount received by the recipient would not be termed as subsidy linked to price but on the same terms and conditions, if credit note is issued after prescribed time limit under section 34 of CGST Act, 2017 then it would be added to value of supply treating as subsidy linked to price. Recipient would have to keep waiting for the credit note to be issued to decide whether the discount received is subsidy directly linked to price or not. This intention of law is nowhere to be seen from the provisions of Section 15(2)(e) of CGST Act, 2017.

And what would be the situation wherein before supplier had reduced the value of the taxable supply by issue of credit note, the recipient sells the goods treating the discount as subsidy directly linked to supply and then supplier issues the credit note and the recipient denies accepting the credit note that since he has added the value of discount as subsidy linked to price, he would not accept the credit note.

Hence in my opinion, in cases where terms of discounts were fixed before or at the time of supply and were linked to specific invoice and supplier does not opts for reduction of tax liability, no addition to the value of supply in terms of Section 15(2)(e) of CGST Act, 2017 can be made in the hands of the recipient of discount as it relates to an event happening prior to the completion of supply and all liability to discharge the due tax for events upto completion of supply are responsibility of the supplier.

3. **If Discount of Rs 10/- cannot be added to the value of Supply then whether credit has to be reversed by B Ltd. on discount received of Rs 10/-:**

It is an admitted position that A ltd has passed on the benefit of Rs 10 to B Ltd. on which tax has not been reversed by B Ltd.. B Ltd. after taking into account the discount passed on by A Ltd. has sold the goods at Rs 120/-. Therefore, in an ideal scenario wherein the value addition should have been Rs 30 and difference tax

to be paid by B Ltd. would have been Rs 6. The value addition still comes to Rs 30 but the difference tax comes to Rs 4.

Particulars	Sales	Purchase	Value Addition	Tax
A Ltd.	100	0	100	20
Less: Value addition through discount passed on A Ltd. to B Ltd.	(10)	-	-	-
B Ltd.	120	90	30	24
C (Purchase Price and Tax Incidence to be Borne)	-	120	-	24

Whether B Ltd. would be liable to reverse the credit taken on Rs 10/- as no tax has been paid by him on such Rs 10/- and whereas value addition made by him is Rs 30/- but the difference tax thereon has been paid to the extent of Rs 4/- only.

In this matter, similar issues arose in Rajasthan Value Added Tax, 2003 prior to 9th March 2011 wherein tax was sought to be levied by the department on discount received by the recipient and goods sold at subsidized prices recipient to the consumer. However, from 9th March 2011, an enabling provision was inserted to reverse input tax on difference between the purchase price and sale price, if goods have been sold below the cost price due to subsidy or discount received.

Hon'ble Rajasthan High Court in the matter of **Commercial Tax Officer, Circle-B, Bharatpur (Rajasthan) Narendra Kumar Govind Prasad dated January 19, 2015 held that**

"In my view, the Rajasthan Tax Board has decided the issue on the factual backdrop and on the facts placed on record by the assessee before the AO, DC (A) as well as Tax Board. In so far as the assessee is concerned he sold the goods granting further discount to the ultimate consumers keeping in view that the discount and incentives (commission) received by the assessee and there was no restriction in selling of the goods on price lower than the purchase value in VAT invoice as there being no restriction under the VAT Act. The Tax Board has rightly considered that the input-tax credit (ITC) is allowable as per the VAT invoice alone."

The above decision was for the year 2008-09. In the year 2010-11 w.e.f. 9th March 2011, Rajasthan Value Added Tax Act, 2003 was amended to provide as follows:

(3A) Notwithstanding anything contained in this Act, where any goods purchased in the State are subsequently sold at subsidized price, the input tax allowable under this section in respect of such goods shall not exceed the output tax payable on such goods.

The constitutional validity of the provision was challenged before the Hon'ble Rajasthan High Court on the ground that it is against the basic concept of the law, governing input tax credit, under the Rajasthan VAT Act, 2003, and being consfiscatory of the input tax credit, is violative of Articles 14, 19(1)(g) and 300A of the Constitution of India.

The contention of the appellant before the Hon'ble court was

It is submitted that the claim of credit of the tax paid at the time of purchase, that is, Input Tax Credit is an indefeasible and concrete right of the assessee. The assessee is entitled for claiming credit of the tax paid at the time of purchase on the goods, and such right cannot be taken away, curtailed or clipped by executive authorities, or even by legislature. The practice prevailing since the time of trading, is that a manufacturer gives quantity discount and sales incentive to its stockists, dealers or selling agent, based on the targeted quantity lifted by him. At the time of supply of the goods, the manufacturer supplies the goods at a particular price and charges applicable VAT thereupon. The dealer, distributor or seller, being conscious of the marketing or incentive scheme floated by the manufacturer, takes a decision to sell the goods at competitive price, and even at lesser price than the purchase price in anticipation of getting quantity discount or sales incentive, on achieving a particular sale figure or reaching the target. Such reduction in price can, by no stretch of imagination, be treated to be a sale at subsidized price.

It is submitted that the subsidized price itself suggests that it is indicative of an incidence, when the seller decides to sell his goods at a substantial lower price, bearing a loss or share the cost, or burden from his own pocket. Where however, dealer sells the goods at competitive price, keeping in view the ultimate quantity discount or sales incentive, such sale cannot be termed, or alleged as sale at subsidized price, attracting Section 18(3A) of the VAT Act, 2003.

Hon'ble Court held that

"31. There is no force in the contention that Section 18(3A) would operate as an embargo to the registered dealer in claiming ITC causing prejudice to the registered dealer. The condition stipulated in Section 18 effectuates the scheme of the Act and more in the nature of beneficial to the registered dealer.

32. *The benefit of credit under the Act is in the nature of a concession given which could be availed only in the manner and in the circumstances mentioned in Section 18."*

Hon'ble Madras High Court in the matter of **Jayam & Co vs The Assistant Commissioner (Ct) ... on 17 July, 2013 was faced a similar controversy under Section 19(20) of the TNVAT Act wherein it was referred that**

"33. The controversy arises in view of the discount given by the vendor/manufacturer after issuance of the tax invoice and charging VAT on the selling price, extending discount to the petitioner/purchasing dealer which were in the form of credit notes. On receipt of the credit notes, the purchasing dealer calculated the purchase price of the goods taking into account discount given by credit note and fixed the same as his purchase price. By value addition, the purchasing dealer sold the goods to the consumer and VAT was calculated on the sale price fixed by the purchasing dealer by reckoning the discount offered under the credit note. If the purchase price of the goods is taken as per the tax invoice undoubtedly the selling price was lower."

Hon'ble Court held that

68. *In order to protect the revenue and with a view to curb the clandestine transactions resulting in evasion of tax, in respect of second and subsequent sales, Section 19(20) was introduced, where any dealer has sold goods at a price lesser than the price of the goods purchased by him, the amount of Input Tax Credit over and above the output tax of those goods, shall be reversed.*

91. *We may at this stage, refer to as to why the legislature thought fit to bring about an amendment by inserting sub-section (20) of Section 19. From the communication dated 24.11.2009, emanating from the Commissioner of Commercial Tax to the Principal Secretary to Government Commercial Taxes and Registration, it is seen that the department observed a sudden fall in the tax collection after the advent of the VAT regime. On a closure scrutiny, it was observed that non-realization of tax under TNVAT Act, is due to various discount received by the dealers after the issue of sale invoices, which were in the form of credit notes. These discounts resulted in accumulation of input tax credit claimed by virtue of purchase invoices raised without these discount components.*

94. *VAT structure has the ultimate goal of augmenting the revenue by making the procedure simple and more transparent. The scheme of the Act requires the Input Tax Credit to be claimed along with returns, original tax invoice duly filled with particulars. Sub-section (20) of Section 19 prescribes that where goods are sold at lesser price than the purchase price of the goods, the Input Tax Credit over and above the Output tax shall be reversed. Sub-section (20) of Section 19 was inserted in order to safe guard the interest of the revenue. In the light of all the discussion we hold that Section 19(20) as amended by Amendment Act 22 of 2010, is a valid piece of legislation and the amendment given retrospective effect with effect from 01.01.2007, by Amending Act 42 of 2010, cannot be struck down as being either unreasonable, discriminatory or causing any unforeseen or unforeseeable financial burden for the past period nor unduly oppressive or confiscatory. Accordingly Constitutional validity of the impugned enactment is upheld.*

Similar provisions were incorporated under the Kerala VAT Act, West Bengal VAT Act, Orissa VAT Act, Delhi VAT Act and Punjab VAT Act.

Thus, the important thing coming out of the above decisions is that the reversal of Input Tax Credit can only be made with the machinery provisions under the law and if the law does not provides for any machinery provision, then the reversal of Input Tax Credit is not permissible. Therefore, there might be loss of revenue to the government but unless provisions similar to Section 18(3A) of Rajasthan Value Added Tax 2003 or Section 19(20) of TNVAT Act or second proviso to Section 11(3) of Kerala Vat Act, 2003 is introduced, there cannot be reversal of input tax credit on the discount amount received by the recipient on which tax has not been reversed by the supplier.

Conclusion: In my opinion, in cases where the terms of discounts have been fixed before or at the time of supply and are linked to specific invoices, and the supplier does not opts for reduction of tax liability, no addition to the value of supply in terms of Section 15(2)(e) of CGST Act, 2017 can be made in the hands of the recipient and nor can the reversal of input tax credit availed take place in the hands of the recipient.

In the ensuing articles, levy of tax or reversal of Input Tax Credit thereof would be discussed for situations where in

a) Terms of discount have been decided after the supply and discount is linked with specific Purchase Invoice, and

b) Terms of discount whether decided on or before or after the supply of goods and is not linked with

specific purchase Invoice