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DISCOUNTS?

Discounting Conundrum Unlocked?

Game-Changing Amendment to Section 15(3) and 34(1)

In a significant move to plug a long-standing interpretational gap, the Central Goods and Services Tax (CGST) Act, 2017 has been proposed to be amended via the Finance Bill 2026 which is in line with the recommendations of the 56th GST Council Meeting.

Section 15 and 34 pre and post amendment are as follows:

Section	Pre - Amendment	Post Amendment
15(3)(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.	“(b) after the supply has been effected, if for such discount, a credit note has been issued by the supplier and input tax credit as is attributable to such discount has been reversed by the recipient of the supply, in accordance with the provisions of section 34.”.
34	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.	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, or where a discount referred to in clause (b) of sub-section (3) of section 15 is given 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.

In Section 15(3)(b) of the CGST Act, 2017 has been proposed to be amended to eliminate the need for **pre-supply agreements** or **invoice linkage** in case of post-sale discounts.

It can be seen that, prescriptions in section 15 have been diluted and merged with section 34.

This tweak, effective from a date to be notified in official gazette, addresses a critical ambiguity around time limits for issuance of credit notes under Section 15(3)(b) for post-supply discounts not agreed or not confirmed upon at the time of supply.

The Pre-Amendment Scenario: A Grey Area Exposed

Prior to this proposed amendment, Section 34(1) provided for issuance of credit notes solely under following 3 conditions:

- a. Where tax invoices are found to exceed the taxable value or tax payable
- b. Where the goods supplied are returned by the recipient
- c. Where the goods or services or both supplied are found to be deficient

Such credit notes must be declared at the earliest of the following:

- 30th November following the end of the financial year in which the supply occurred (so technically by 31st October, so same can be reported before 30th November in GSTR-1),
OR
- The filing of the annual return (now includes GSTR-9C reconciliation also).

However, credit notes for **post-supply discounts under Section 15(3)(b)** such as volume rebates, promotional incentives, or performance-based discounts given after supply was executed weren't explicitly covered. So, often it was argued that these credit notes fell outside the scope of Section 34 providing for time limit, as they were not fulfilling any of the conditions mentioned in Section 34(1). This has resulted into:

- Endless litigations.
- Compliance headaches for exporters, manufacturers and retailers relying on such schemes.
- Input Tax Credit accumulation at the end of Distributor or Retailer resulted in blocking of huge working capital.

For instance, a supplier offering a 5% year-end rebate on bulk purchases couldn't adjust output tax if the credit note came after 31st October, even if documented properly under Section 15(3)(b).

What the Amendment Achieves: Crystal-Clear Coverage

The insertion explicitly covers **Section 15(3)(b) discount credit notes** under Section 34(1)-time limit regime. Now:

- Earlier, for post supply discounts if one wanted to issue a GST credit note, he was required to establish it in terms of an agreement entered into at or before the time of such supply and also linking of the same with the original invoice through which the underlying supply was made, this was a major bottleneck for the industry. Many industries took a safe view and issued Non-GST credit notes to avoid litigations at their side, but this resulted in ITC accumulation in the supply chain. Once these amendments are notified the industry can issue GST credit notes without any fear of litigation.
- **All credit notes** - whether for deficient supplies or post-supply discounts—must adhere to the 31st October/Annual Return deadline.
- No more wiggle room: Late issuance means permanent disallowance of tax adjustment, pushing suppliers to reverse ITC claims via debit notes or cash refunds.

Reversal of ITC By the recipient

Earlier provision of section 15(3)(b) was containing phrase "**Subject to reversal of attributable ITC by the recipient**" which imposes a general condition that the recipient must reverse the proportionate ITC linked to the transaction (e.g., due to a discount via credit note). It emphasizes the recipient's duty without specifying the exact mechanism or proof to be produced by the supplier.

Post amendment Section 15(3)(b) contains the phrase "**Attributable ITC has been reversed by the recipient in accordance with Section 34**" is more stringent, requiring proof of actual reversal by the recipient under Section 34 procedures (e.g., via GSTR-3B reporting or IMS acceptance etc.). These shifts focus on compliance verification, often for the supplier to claim relief.

Aspect	Pre-Amendment	Post-Amendment
Coverage	<ul style="list-style-type: none"> - Excess Taxable Value or Tax Payable - Goods Return - Deficient supplies only 	<ul style="list-style-type: none"> - Excess Taxable Value or Tax Payable - Goods Return - Deficient supplies only - Post supply discounts
Time Limit of reporting CN	30 November / Annual Return (whichever is earlier)	Same, now strictly enforced
Business Impact	Blocking of Working Capital	Working capital savings

This amendment isn't just procedural—it's a compliance booster that fosters predictability in GST's discount ecosystem. As GST evolves, staying ahead means proactive policy tweaks.

Author's Note: This analysis is based on the Finance Act amendment as of Feb 2026. Consult the official Gazette for exact applicability dates and seek professional advice for case-specifics.