

Has the Hydra of Post Sale Discounts Under GST Finally Been Subdued?

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Background

The Union Budget 2026-27, presented on 01 Feb 2026, builds upon the GST Council decisions made in 56th GST Council meeting held in September last year. It introduces legislative amendments easing the post-sale discounts related compliances through Clause 137 and 138 of the Finance Bill, 2026. This amendment could prove to be a significant trade-friendly reform in the GST regime, as it addresses a long-standing litigative issue that has plagued businesses since GST's inception.

Genesis of the issue

Under the existing provisions of Section 15(3)(b) of the CGST Act, 2017, post-sale discounts could be excluded from the value of supply only if following stringent conditions were met:

Condition 1: Pre-existing Agreement: The discount must be established in terms of an agreement entered into at or before the time of supply.

Condition 2: Invoice Linkage The discount had to be specifically linked to invoices, creating administrative burdens for high-volume distributor-retailer networks.

Condition 3: ITC Reversal Input Tax Credit (ITC) attributable to the discount had to be reversed by the recipient based on credit note issued by the supplier.

The revenue authorities, while allowing the credit-note related turnover reductions, always used to ask for confirmation/ declaration from the supplier regarding reversal of ITC by the vendor. If the suppliers did not produce such a declaration, then the reduction of turnover and consequently reduction of GST liability by the supplier basis such credit notes was disallowed.

The Amendment

Through Clause 137 of the Finance Act, it has been proposed to amend Section 15(3)(b) by **removing the conditions of pre-agreement and invoice linking** for post sale discounts. Under the new framework, a post supply discount can be excluded from the value of supply if:

1. The supplier issues a credit note, and
2. The recipient reverses the corresponding ITC in accordance with amended Section 34.

Clause 138 also proposed to revise Section 34 to incorporate this simplified mechanism.

What Changes?

1. Removal of pre-existing agreement requirement: Taxpayers will no longer need a pre-existing agreement to reduce outward GST liabilities due to post-sale discounts. This eliminates the primary barrier that prevented legitimate commercial discounts from being recognized under GST.

2. Simplified Documentation: As long as a credit note is issued under Section 34 and the recipient reverses the related ITC, the discount can be excluded from the taxable value by the supplier. The requirement for invoice linkages has been done away with, thereby providing big clerical and administrative relief to the taxpayers.

3. Cross-referencing with Section 34: The amendment establishes clear cross-referencing between Section 15(3)(b) and Section 34, providing legal clarity on the issuance of GST credit notes for post-supply discounts. Therefore, any legal challenge to the validity of the post sale discount related credit note, not being compliant with conditions of Sec. 34 has also been taken care of proactively.

Legal Precedents and their relevance

Supreme Paradise vs. Assistant Commissioner (Madras High Court)[\[1\]](#)

This landmark case addressed the determination of transaction value where dealers received post-supply volume discounts from manufacturers. The department sought to include the discount offered by the supplier to their customer in the transaction value of the goods further supplied by that customer.

The Madras High Court observed that the discounted price offered to the dealer and the price at which goods are sold to customers are two independent transactions that cannot be intermingled unless the discounted price is due to a subsidy. The court clarified that Section 15(3)(b) of the CGST Act is **relevant only for determining the "transaction value" of the "supplier"** after the supply is affected and a discount is offered to the recipient.

Apparently, this judgment's principle is now codified through this proposed amendment, thereby providing statutory backing to the commercial reality that post-sale adjustments are legitimate pricing mechanisms, not subsidies requiring complex documentation.

Southern Motors vs. State of Karnataka[\[2\]](#)

This case established that discounts allowed as trade practice should not form a part of taxable turnover, provided they accord with regular trade practice or contractual agreements. The Court held that both trade and cash discounts are permissible deductions in calculating taxable turnover, and businesses can issue credit notes for post-sale discounts to reduce tax liability accordingly.

This amendment removes the rigid invoice linkage requirements while preserving the economic substance test, aligning with this judicial principle, that trade and cash discounts given as per practices of the trade should be allowed as a deduction from transaction value, even though the same may not be a part of the initial invoice. *"To deny the benefit of deduction only on the ground of omission to reflect the trade discount though actually granted in future, in the tax invoice/bill of sale at the time of the original transaction would be to ignore the contemporaneous actuality and be unrealistic, unfair, unjust and deprivatory"*

The aforesaid judicial precedents which laid down the principles for allowing trade/cash discounts as a deduction from transaction value even though the same not being known at the time of initial supply, now find a place in the legislative provisions of GST.

Interplay with the GST Circulars

3 major circulars were issued by the CBIC, to address the issues surrounding post sale discounts i.e., Circular No. 92/11/2019-GST dated 07 March 2019, Circular No. 105/24/2019-GST dated 28 June 2019 and finally Circular No. 251/08/2025-GST dated 12 Sep 2025. Out of above, Circular No. 105/24/2019 was later rescinded.

Out of the balance 2 circulars, Circular 92 provided clarity on GST applicability on various industry practices surrounding discounts. Circular 251 on the other hand, clarified the issues surrounding treating discounts as consideration in the hands of recipient.

While Circular 251 remains largely unaffected by the proposed amendment, Para D of Circular 92 (which talks about secondary discounts provided for price adjustments post sale) could require significant re-writing in light of the proposed amendment. Accordingly, a clarification from the department regarding applicability of said para D post the aforesaid amendment becomes effective, would go a long way in avoiding needless queries and litigation.

Major Industry Impact

1. Automobile Industry

Automobile manufacturers operate complex discount structures including volume incentives, year-end bonuses, model-specific promotions, and exchange bonuses. This amendment could legitimize dynamic responses to market conditions and competitor actions without GST related concerns.

2. FMCG and Consumer Goods

FMCG companies operate multi-tier distribution networks. This amendment allows quarterly or annual target-based discount schemes without formal agreements at each transaction point. Nonetheless, while the proposed amendment may make pre-agreements unnecessary, taxpayers should maintain internal policies documenting discount schemes to demonstrate commercial rationale during audits.

3. Electronics and Appliances

Electronics manufacturers face rapid price fluctuations from technology obsolescence, new launches, and inventory clearance needs. This amendment provides relief by allowing credit notes for price protection without proving pre-supply agreements, acknowledging the dynamic pricing reality of this sector.

4. Pharmaceutical and Healthcare

Pharmaceutical companies provide various schemes—trade discounts, cash discounts, volume bonuses, and scheme products—to distributors and chemists. Post-amendment documentary requirement are dramatically simplified. This reduces regulatory burden in an already highly regulated sector.

5. Textiles and Apparel

Textile manufacturers operate on seasonal discount patterns with frequent mid-season and end-of-season sales requiring retrospective price adjustments. The amendment permits markdown funding to retailers without complex pre-season discount agreements, providing flexibility to manage inventory and respond to fashion cycle dynamics.

The way forward

Tax payers should proactively prepare for the April 2026 implementation by undertaking immediate system and process upgrades. They should update ERP systems to capture proper credit note issuance, track ITC reversals by recipients, and clearly categorize transactions as price reductions versus service considerations.

Training programs may be initiated for sales, finance, and tax teams to ensure proper understanding of the new framework and its requirements.

While pre-agreements are no longer mandatory, tax payer should still establish internal SOP's documenting discount schemes, commercial rationale and approval processes to withstand potential scrutiny by revenue authorities.

Suppliers must implement robust reconciliation mechanisms with dealers and distributors to confirm ITC reversals, potentially through automated systems.

Is the Hydra actually Subdued?

Despite the significant reform, several implementation and interpretational challenges remain. The absence of a clear statutory definition for "discount" versus "service consideration" may lead to divergent interpretations between taxpayers and authorities, particularly where promotional payments blur the line between price reductions and separate supplies.

A critical operational risk involves ITC reversal compliance by dealers and distributors—suppliers remain exposed to demand notices if recipients fail to reverse attributable input tax credit, creating enforcement challenges across multi-tier distribution networks. This issue would be mitigated to a great extent when invoice management system (IMS) is implemented mandatorily. A positive action in IMS should be accepted as proof of reversal of ITC by the recipient, however a clarification in this regard from the department would go a long mile to avoid any issues in the future.

The amendment also introduces uncertainty regarding applicability. Since this provision comes into effect from 01 April 2026, should it be applicable to invoices issued post 01 April 2026 or credit notes issued post the said date?

Finally, revenue authorities may subject large-value or voluminous discount claims to heightened audit scrutiny despite the legislative relaxation, especially where discount percentages appear disproportionate to industry norms or involve related-party transactions.

These challenges underscore the need for CBIC to issue comprehensive clarifications addressing ITC tracking mechanisms, retroactive applicability, and safe harbor thresholds to ensure smooth implementation of this taxpayer-friendly reform and to subdue this Hydra once and for all.

[\[1\]](#) (2024) [[TS-32-HC\(MAD\)-2024-GST](#)]

[\[2\]](#) 2017