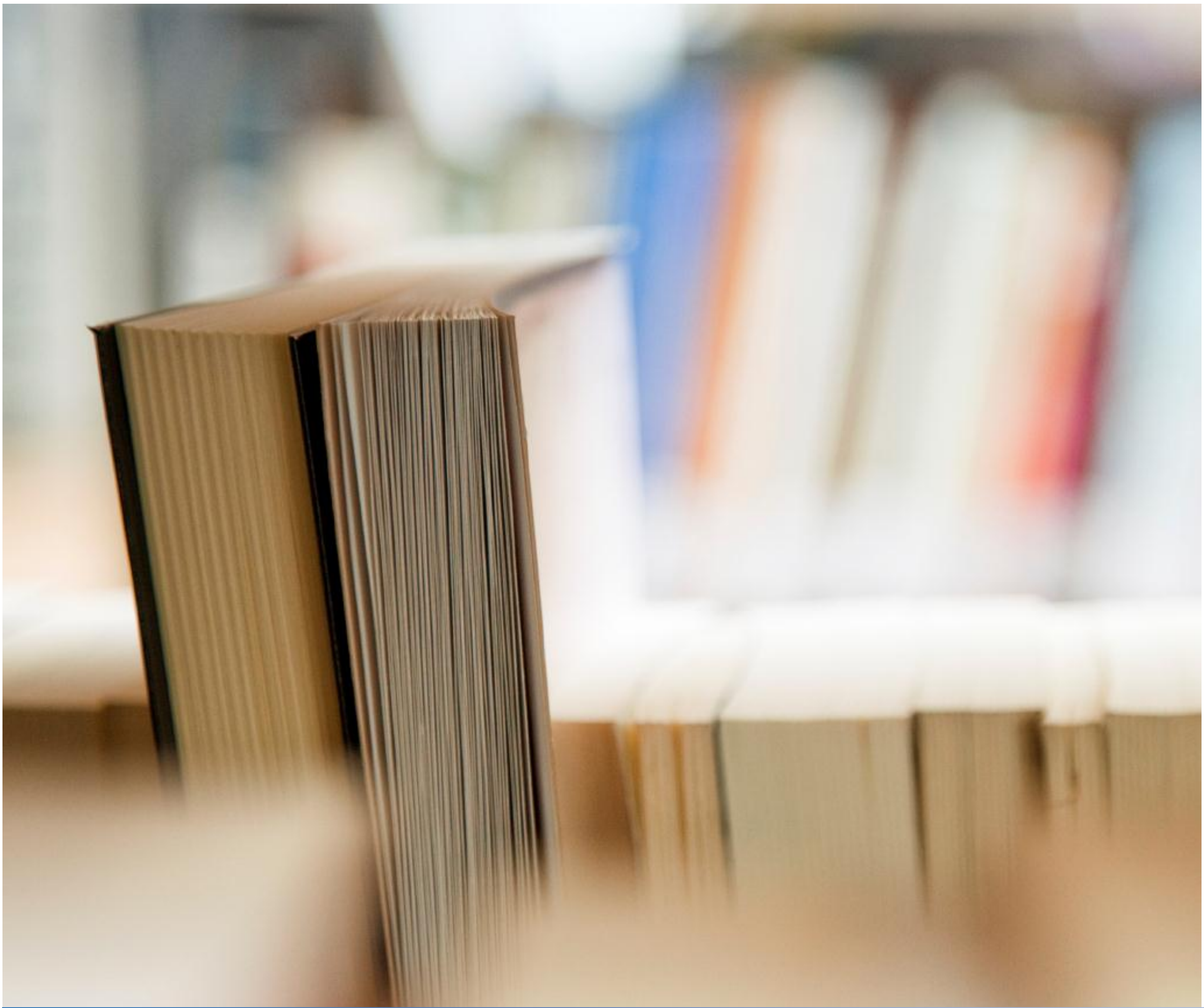

Treatment of Discounts in Annual Return and GST Audit

S KHAITAN & ASSOCIATES

SHUBHAM KHAITAN

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INTRODUCTION

1. Discount is a popularly used term under the GST law by various entities for the reduction in value of their outward supplies. These discounts are classified under various heads by these entities based on the timing and terms of this discount. Some of these discounts are agreed at the time of supply while as the others may be provided by means of an after-thought. In fact, some of the businesses also glorify bad debt and show it in the form of discount. The question that arises is based on the terms of discount. Should its treatment differ under GST? If yes, what should be the treatment of different kinds of discounts under the Annual Return and GST

Audit?

Valuation provisions for discount

2. To understand the valuation of GST and whether the same is allowable as deduction, one should carefully analyse the provisions of Section 15(3) of the CGST Act. Section 15(3) of the CGST Act has been enumerated below:
"15(3). The value of the supply shall not include any discount which is given-
(a) Before or at the time of 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" Discount is allowable as per the above provision only if the conditions given above are

satisfied.

3. Discount before or at the time of supply

3.1 First scenario – Indicated on the invoice - If the discount is given before or at the time of supply, it is to be indicated on the invoice. No separate document is required to be issued in such cases. If it is indicated as such in the invoice, the net value of supply after the discount is only required to be taken for the purpose of charging GST. In the GST returns, the net value of supplies is only disclosed. Based on the nature of supply and the recipient, such supplies are to be given in GSTR 1 and thereby in the Annual Return. Assuming that such supplies are taxable, they are required to be disclosed in Table 4 of the Annual Return.

If GST has been charged on the net value, then the books of account should also disclose the net figures of supplies made. So, at the time of reconciliation of outward supplies, there is no adjustment required to be made in Form GSTR 9C. This is because the net value of taxable supplies is to be taken for both the GST Annual return and the financial statements. As both the values are matching with each other, there is no reconciliation adjustment required for this purpose.

3.2 Second scenario – Not indicated on the invoice - Assuming that such value is not recorded in the invoice and is only given after the issue of invoice, then the value of discount will not be reduced for the purpose of charging GST. Thereby, GST will be charged on the gross value indicated in the invoice before the component of discount. In such a situation, the credit note issued will be considered as a financial credit note with no effect under the GST law. With no effect under the GST law, such credit notes are not required to be disclosed in the GST returns. So, the invoice will continue to have the GST charged on the gross value. When considering the Annual return under the GST law, such credit notes are not required to be disclosed anywhere.

Upon reconciliation of outward supplies as per Form GSTR 9C, the auditor is required to indicate any item which may cause a reconciliation difference between the turnover as per the audited financial statements and the GST annual return. Of course, the annual return does not contain the reduction in such value of discount and contains the grossed up figures of supplies made before discount. When comparing the figures that are required to be disclosed in the books, it can be found that the financials contain the net value of outward supplies made after the reduction in discount. As a result of this, there will be a reconciliation difference arising due to differential treatment in the books of account and GST Annual return. Such reconciliation item is required to be shown under 'Trade discount accounted for in the Audited financial statement but are not permissible under GST'.

Discount given after the supply has been effected

4. Discount can also be given once the supply has been effected by a supplier. However, such discount will be allowed as a reduction from the value of supply only upon satisfaction of the following conditions:

- ♦ It should be established as per the agreement entered into at or before the time of supply
- ♦ It should be specifically linked to the relevant invoice
- ♦ Input tax credit on the supply should have been reversed by the recipient

4.1 Situation 1: All the conditions are satisfied - If all the conditions depicted above are satisfied, then the discount given will be allowed as a reduction from the value of supply. This discount will be allowed by means of a credit note. As per Section 34, such credit notes will be considered to have been issued under the GST law. Of course, it has already been indicated that such credit note should be specifically linked to the relevant invoice.

4.1-1 *Case 1* - If the credit note has been issued during the year 2017-18 in respect of a B2B invoice belonging to the same year and the same has been disclosed in the monthly returns for the period July 2017-March 2018, they will be shown under 41 of Part II of GSTR 9 under the head 'Credit notes issued in respect of transactions specified in B to E above'

4.1-2 *Case 2* - If the credit note has been issued during the year 2017-18 in respect of a B2C invoice belonging to the same year and the same has been disclosed in the monthly returns for the period July 2017 – March 2018, they will be netted off against B2C supplies required to be shown under Table 4A of Form GSTR 9 as 'Supplies made to unregistered persons (B2C)'.

4.1-3 *Case 3* - If the credit note has been issued during the year 2017-18 in respect of an invoice belonging to the same year but the same has been disclosed in the return for the period between April 2018 to September 2018, then they should be shown under Part V. Part V of the Annual return requires the disclosure of all the supplies made in returns for the period April to September 2018, though they belong the period of 2017-18. Under Table 11 of GSTR 9, this should be disclosed under 'Supplies/tax reduced through amendments (-) net of credit notes'.

4.1-4 *Case 4* - If the credit note has been issued during the year 2018-19 in respect of an invoice belonging to the period 2017-18, then the same is required to be disclosed in the annual return of the period 2018-19 only. Credit note with issue date after the end of 2017-18 cannot by any stretch of imagination be considered as a credit note for the period 2017-18. So, they should not be treated in the annual return for the year 2017-18.

In all the cases mentioned above, the treatment in the books of account is in consonance with that made in the GST returns. In the first three cases, the reduction in value in respect of discount will have been given under the annual return for the year 2017-18 and, of course, such reduction will also have been given in the financial statements of the said year 2017-18. In the fourth case, the said credit note will have been shown in the financial statements and the GST returns for the year 2018-19. So, in all the four cases discussed, the semblance of equilibrium between the financial statements and the GST returns will be deemed to have not been disturbed. So, they will not form reporting under Form GSTR 9C – GST Reconciliation statement.

4.2 Situation 2: Any one of the conditions does not get satisfied - In this situation, if any one of the conditions for allowance of reduction of discount gets contravened, then such discount will not be allowed for the purpose of GST. So, the discount given by means of the credit note issued after the supplies are made will not be reduced from the gross value for calculation of GST. Here even bad debts will not be allowed to be deducted from the total value as they are not established at the time of agreement, even though they may be classified as discounts. Since there is no GST charged on the said credit note, such credit note will not be shown in the GST return. As a result, the annual return will not have any treatment of such types of discounts.

Further, upon considering the reconciliation under Form GSTR 9C, it will have to be reported as a reconciliation item. This is because the discount is allowed under the financial statements in every case but these discounts are not disclosed in the annual return under GST. As a result, there is a difference in the turnover reported as per audited financial statements and the annual return. So, they will have to be reported as a reconciliation item under 'Trade discount accounted for in the Audited financial statement but are not permissible under GST' under Table 5. Further, it may also be shown under 'Credit notes accounted for in the audited financial statements but not permissible under GST' if the discount is of a nature which is other than trade discount (for e.g., cash discount).

Plotting of discounts

5. Based on the nature of discount, the same needs to be classified under one of the scenarios, cases and situations. Once the nature of discount is plotted accurately, the treatment as per the annual return and the GST reconciliation statement can be made based on the above description.

Common discounts

6. Some of the common discounts which are used in trade and industry are given below:

6.1 Turnover discounts - These are usually provided if the recipient achieves a certain amount of purchase from a particular supplier. Usually, quite a number of purchase bills are to be aggregated from that particular supplier to arrive at the purchase from that supplier. Even though they may be agreed beforehand, these discounts given in the form of credit notes are not specifically linked to any one invoice. So, GST is not allowed to be deducted in these credit notes.

6.2 Special or Bonus Discounts - These are issued by supplier to the recipient for maintaining the business relationship or for any future purchase by the dealer. They are usually not agreed at the time of agreement or linked to any specific invoice. So, they are not allowed as deductions.

6.3 Cash discounts - These are given in situations where the recipient makes the payment to the supplier within a predetermined time period. A credit note is issued at the time of payment. In such cases, the agreement or purchase order or the invoice should be checked to find whether the conditions of discount were established at the time of supply. Further, it should be known whether they are linked to any specific invoice. Only if these conditions are satisfied, the deductions should be allowed.

6.4 Trade Discounts - Usually these discounts are given without any attached conditions and are given at the time of supply itself. The invoice usually contains the discount which is separately deducted therein. In such situations, they are allowed to be deducted from the value on which GST is to be charged.

6.5 Incentives - Usually payments made to distributors, dealers and other persons are given in the form of incentives which usually have a nomenclature of discounts in the books of any person. Since, this is not considered to be a discount in terms of

Section 15(3) of the GST law through reduction in sale price, they will not be allowed as deductions from the value under GST.

6.6 Remission and Compensation – If there is any fall in the prices because of which the dealer has to supply goods at a lower price, the manufacturer/wholesaler may agree to compensate the price difference. As it is not part of the agreement and is only decided subsequently, it should not be allowed as a deduction for GST purposes.

Conclusion

7. One should clearly understand the implications and treatment of discounts as per the annual return and the GST reconciliation statement. To summarize, if GST is allowed on the discount, it will be part of annual return but is not to be shown as a reconciliation difference. On the other hand, if GST is not allowed on the discount, then the same will not be disclosed in the annual return but as part of reconciliation difference between the audited financial statements and the GST annual returns.

REGD OFFICE : 24/25, RUPCHAND ROY STREET,
3RD FLOOR,
KOLKATA – 700007

ADMIN OFFICE : MOOKERJEE HOUSE,
17, BRABOURNE ROAD, 2ND FLOOR
KOLKATA - 700001

PHONE NO : 03340687062, +919831912725
EMAIL ID : info@cakhaitan.com
shubham@cakhaitan.com

WEBSITE : www.cakhaitan.com