

GOVERNMENT OF NATIONAL CAPITAL TERRITORY OF DELHI
DEPARTMENT OF TRADE AND TAXES
(POLICY BRANCH)
VYAPAR BHAWAN, I.P. ESTATE, NEW DELHI-110 002

No.F.3(394)/Policy/VAT/2013/349-356

Dated : 08.09.2014

CIRCULAR NO. 11 OF 2014-15

Sub: Reversal of Input Tax Credit under Section 10 of the DVAT Act, 2004 in respect of Credit Note/Debit Note related to discounts.

1. Under Section 10(1) of the DVAT Act, 2004, where any purchaser has been issued with a credit note or debit note in terms of section 51 of this Act or if he returns or rejects goods purchased, as a consequence of which the tax credit claimed by him in any tax period in respect of which the purchase of goods relates, becomes short or excess, he shall compensate such short or excess by adjusting the amount of the tax credit allowed to him in the tax period in which the credit note or debit note has been issued. Such adjustment of tax credit shall be made in the context of sale/purchase made in Delhi and not in the context of interstate sale/purchase.

2. The Credit Note issued by the Selling Dealer may relate to:-

(i) **Trade Discount** by any name called including quantity discounts, end of year discounts, close out discounts, target discounts, bonus or incentives in the form of general credit to the purchaser's account of supplying additional quantity of the goods dealt in by the selling dealer or providing/supplying perks, such as allowing package tours or giving gift articles, etc [Post sale perks and discounts].

(ii) Relating to goods returned or rejected by the purchaser.

(iii) Due to variation in rate or quantity in individual sale invoice;

(iv) Consideration for other facilities offered to the purchaser, such as, rent for window display, sign-boards, lease rental of premises, other establishment expenses, etc.

(v) Reimbursement of expenses incurred by purchaser on behalf of seller.

(vi) Cash Discount. (For payment made before the agreed date)

3. **Trade vs. Cash Discounts**

Trade discounts are incentives for a customer to purchase a product. It may be new customer discounts, quantity discounts, repeat customer discounts, end of year discounts, close out discounts, and many more. Whatever be the type, they are designed to entice a customer to purchase now, to purchase more and to purchase this. Trade discounts are generally reflected in the credit side of the Trading Account of the dealer.

Cash discounts, on the other hand, are incentives for a customer to pay the bill once they have made that purchase. They tell the customer when the bill must be paid, and communicate whether there are financial benefits (discounts) for paying before that deadline. Cash discounts are generally reflected in the credit side of the Profit & Loss Account of the dealer.

4. Trade discounts could further be classified into two types of discounts-

(a) **Discounts given at the time of sale** – According to the trade practice, such discounts are offered at the time of sale and VAT is charged on the resultant cost. Suppose, the cost of a good is Rs. 120/-. The seller offers a discount of Rs. 20/-. The resultant cost of the commodity now becomes Rs. 100/- and VAT @ 12.5% (say) would be Rs. 12.50 making the sale price to Rs.112.50. The seller is liable to pay Rs. 12.50 as VAT to Government and the buyer is entitled to an ITC of Rs. 12.50 on the purchase. The tax liability of the buyer would depend on the sale price at which the goods is sold to consumer. In this case, no VAT adjustment is required to be made.

(b) **Post sale discounts** – If in the above example, the original seller offers a post-sale discount of say Rs. 10/-. Then, the cost of the goods would become Rs. 90/- and VAT liability would be Rs. 11.25. But, the seller has already paid Rs. 12.50 as VAT and accounted for the same in his books of accounts. Thus, the seller is entitled to make adjustment of Rs. 1.25 (12.50-11.25) in accordance with the provision of Section 8 of DVAT Act. The sale price would now be reduced to Rs. 101.25 (112.50 -11.25). By reducing the cost price by Rs. 10/-, the seller has to issue credit note of Rs. 11.25 (10 + 1.25) to the buyer. It hardly matters whether the seller indicates the value of credit note as Rs. 11.25 or Rs. 10.00 plus Rs. 1.25 as VAT. Consequently, the buyer now becomes entitled to an ITC of Rs. 11.25 instead of Rs. 12.50 already claimed. **Thus, an ITC of Rs. 1.25 (12.50-11.25) has to be reduced by the purchaser as provided in section 10 of DVAT Act.**

5. **The reduction in ITC by buyer is independent of reduction in output tax liability by seller.** The seller may reduce the liability by revising return or making adjustment for the reduction in the output tax liability of current tax period's return in terms of section 8. While assessing or scrutinizing the return of buyer in a particular ward, it is difficult to find out whether the pairing selling dealers have also reduced their output tax liability. The sellers may be registered in different wards. There is no system of issue of certificate to buyer by seller stating that the output tax corresponding to credit note has been adjusted or not and neither it is desirable in VAT regime.

6. Cash discount stated at 2 (vi) issued by selling dealer is not eligible for adjustment to Output Tax in terms of provisions of Section 8 of the DVAT Act. Therefore, the Credit Notes issued on this account need not be mentioned in Annexure 2C of the return. Similarly, the purchasing dealer need not to mention such Credit Notes in Annexure 2D of the return in Form DVAT-16. Likewise, credit notes issued for items stated at 2(iv) and 2(v) shall also be not eligible for adjustment of output tax u/s 8 of DVAT Act.

7. Input Tax Credit has to be adjusted by the Purchasing Dealer in respect of Credit /Debit Notes related to items listed at 2(i) to 2(iii). Credit note related to items listed at 2(iv) to 2(vi) need not be subjected to ITC reversal. **Consequently, the selling dealer will not be eligible to make adjustment of output tax on account of issue of Credit Note with respect to item 2(iv) to 2(vi).**

8. It supersedes Circular No.30 of 2013-14 issued vide No.3(394)/Policy/VAT/2013/1097- 1103 dated 19/12/2013.

9. This issues with the prior approval of Commissioner, Value Added Tax.

(Sanjeev Ahuja)
Spl. Commissioner (Policy)