

## CBIC Circular No. 251/08/2025-GST

### Analysis on Treatment of Secondary/Post-Sale Discounts under GST

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#### Executive Summary

The Central Board of Indirect Taxes and Customs (CBIC) has issued Circular No. 251/08/2025-GST dated September 12, 2025, providing crucial clarifications on the GST treatment of secondary or post-sale discounts. This circular addresses three key issues that have been causing confusion in the industry and provides much-needed clarity for businesses dealing with discount mechanisms.

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#### Detailed Analysis of Issues and Clarifications

##### Issue 1: Input Tax Credit Eligibility on Financial/Commercial Credit Notes

**Question Addressed:** Whether full input tax credit is available to recipients when they make discounted payments due to financial/commercial credit notes issued by suppliers?

##### CBIC Clarification:

- Recipients are entitled to claim full Input Tax Credit (ITC) under Section 16(1) of CGST Act
- Financial/commercial credit notes do not reduce the original transaction value
- Suppliers cannot reduce their original tax liability when issuing such credit notes
- Since transaction value remains unchanged, the corresponding tax liability also remains unchanged

##### Practical Example:

###### Original Transaction:

- Invoice Value: ₹1,00,000
- GST @ 18%: ₹18,000
- Total: ₹1,18,000
- ITC Available: ₹18,000

###### Post Financial Credit Note:

- Credit Note: ₹10,000 (financial discount)
- Payment Made: ₹1,08,000
- ITC Available: ₹18,000 (remains unchanged)
- Supplier's Tax Liability: ₹18,000 (no reduction allowed)

## Issue 2: Post-Sale Discounts as Consideration for Supply Inducement

**Question Addressed:** Whether post-sale discounts from manufacturers to dealers constitute consideration for inducing supply to end customers?

### CBIC Clarification:

#### Scenario A - Independent Transactions (No GST Impact):

- Where manufacturer and end customer have no direct agreement
- Two independent sale transactions exist (manufacturer to dealer, dealer to customer)
- Discounts are competitive pricing tools to push sales
- Such discounts cannot be treated as consideration for inducement

#### Scenario B - Tripartite Arrangement (GST Impact):

- Where manufacturer has agreement with end customer for discounted supply
- Manufacturer issues credit notes enabling dealer to supply at agreed discounted rate
- Such discounts should be included in overall consideration as inducement

### Practical Examples:

#### Example 1 - Independent Transactions:

Transaction Flow:

Manufacturer → Dealer (₹100 + ₹18 GST)

Dealer → End Customer (₹120 + ₹21.60 GST)

Post-sale discount: Manufacturer gives ₹5 to dealer

Analysis: No additional GST implication as discount is merely competitive pricing

#### Example 2 - Tripartite Arrangement:

Agreement: Manufacturer agrees to supply goods to Customer X at ₹90

Process: Manufacturer → Dealer → Customer X

Manufacturer compensates dealer ₹10 for selling at discounted rate

Analysis: ₹10 compensation is consideration for inducement and forms part of overall transaction value

### Issue 3: Post-Sale Discounts as Consideration for Promotional Activities

**Question Addressed:** Whether post-sale discounts can be treated as consideration for promotional activities performed by dealers?

#### CBIC Clarification:

##### General Promotional Activities (No GST):

- Discounts for general promotional activities that enhance dealer's own sales
- Activities that increase dealer's own revenue from goods they own
- Such discounts merely reduce sale price and are not consideration for independent services

##### Specific Contractual Services (GST Applicable):

- Where dealers undertake specific promotional activities under explicit agreements
- Services like advertising campaigns, co-branding, customization, special sales drives, exhibitions, customer support
- GST applicable when services are explicitly stated with clearly defined consideration

#### Practical Examples:

##### Example 1 - General Promotion (No GST):

Scenario: Manufacturer gives 2% discount to dealer for general market promotion

Analysis: No GST as discount reduces sale price, not consideration for independent service

##### Example 2 - Specific Contractual Services (GST Applicable):

Agreement: Dealer to conduct advertising campaign for ₹50,000

Consideration: Post-sale discount of ₹50,000

Analysis: GST @ 18% = ₹9,000 applicable on advertising services

#### Impact on Trade and Industry

##### Positive Impacts

###### 1. Clarity on ITC Claims

- Businesses can confidently claim full ITC on transactions involving financial credit notes
- Reduces litigation and disputes with tax authorities
- Improves cash flow management

###### 2. Simplified Discount Mechanisms

- Clear distinction between different types of discount arrangements
- Enables businesses to structure discount schemes more effectively
- Reduces compliance burden for routine commercial discounts

### 3. Reduced Tax Disputes

- Clear guidelines prevent differing interpretations by field formations
- Uniform implementation across all jurisdictions
- Predictable tax treatment for business planning

## Recommendations Immediate Actions Required

### 1. Review Existing Agreements

- Analyze current discount and incentive arrangements
- Identify potential GST implications under new clarifications
- Restructure agreements if necessary

### 2. Update Accounting Systems

- Modify systems to reflect new discount treatments
- Ensure proper GST computation and reporting
- Implement necessary controls and validations

### 3. Compliance Assessment

- Conduct impact assessment on current practices
- Identify areas requiring procedural changes
- Develop implementation timeline

## Conclusion


This circular provides significant clarity on long-standing issues related to discount treatments under GST. While it brings welcome certainty to many commercial arrangements, businesses must carefully evaluate their existing practices and ensure compliance with the new guidelines. The distinction between different types of discounts and their tax treatment requires careful attention to documentation and agreement structuring.

Organizations should take immediate steps to align their practices with these clarifications to avoid potential disputes and ensure smooth GST compliance. The circular's emphasis on explicit agreements and clear documentation underscores the importance of maintaining robust compliance frameworks.


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**For expert guidance on implementing these changes and ensuring GST compliance:**

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