



GST 2.0 – CBIC issues clarification on treatment of secondary/post-sale discounts

Further to the GST Council recommendations, the CBIC issued a Circular¹ addressing and clarifying the issues pertaining to Post Sale Discounts. Our analysis of the said Circular on treatment of post-sale or secondary discount is as under:

The Circular clarifies 3 Scenarios with respect to post sale discounts, as under:

Scenario I: Issuance of financial/commercial credit notes – Requirement of Input Tax Credit (ITC) reversal by the recipient

- ITC reversal is not required by the recipient on discounted payments made to supplier (settled through financial/ commercial credit notes).
- An earlier Circular No. 92/11/2019-GST dated March 7, 2019, clarified that the supplier of goods can issue financial/commercial credit notes and in such a case, original tax liability remains unaffected.
- As there is no reduction in original transaction value and the tax payment thereon, the recipient shall be entitled to a full ITC on the original supply.

Scenario II: Post-sale discount by manufacturer to distributor – Consideration/ inducement for dealer's supply to end-customer

- Where there is 'no agreement' between the manufacturer and the end-customer and the

transaction between the manufacturer and dealer is on a principal-to-principal basis, then:

- Post sale discount cannot be included in consideration as the monetary value of the inducement of further supply of these goods.
- In such as case, there are two independent sale transactions – (i) manufacturer to dealer and (ii) dealer to end customer.
- Sale is complete upon transfer of title. Dealer takes ownership of goods and sells on principal-to-principal (P2P) basis.
- The discount offered is given for sale promotion, which cannot be linked to any independent activity rendered to the manufacturer.
- Where the manufacturer has 'some agreement' with end customer to supply goods at a discounted price, and the manufacturer issues commercial or financial credit notes to the dealer, enabling him to supply goods at the agreed discounted rate to such end consumer, then:
 - Such a post-sale discount is includible in the overall consideration as it is an inducement towards the supply of goods by the dealer to such end customer.

¹ Circular No. 251/08/2025-GST dated September 12, 2025

- GST shall hence be paid by the dealer at his supply price added with the financial support to be received from the manufacturer

Scenario III: Post-sale discount by the manufacturer to the dealer – whether consideration for promotional services

- Where discount is not linked to any independent service rendered to manufacturer:
 - Such discount shall not be a consideration for separate transaction of supply of service.
 - Promotional activities ultimately enhance the sale of goods that the dealers themselves own, and discount merely reduces the sale price of the goods.
- Where discount is for specific sales promotional activities rendered by dealer like advertising campaigns, co-branding, customization services:
 - GST shall be levied in such cases as dealer provides a distinct service to the manufacturer
 - These services shall be taxable only when such services are explicitly stated in agreement with a clearly defined consideration.

goods at a discounted price and funds the dealer through credit notes, such discounts would be regarded as additional consideration for the dealer's supply to the end-customer. This position could expose dealers to retrospective tax demands in respect of past arrangements. Moreover, questions around what qualifies as an end-customer agreement and how such arrangements are evidenced remain open to interpretation, leaving significant scope for future controversy.

In this backdrop, businesses must proactively revisit their agreements, schemes, and commercial documentation to ensure alignment with the Circular. Clear differentiation between principal-to-principal sales, inducement-linked discounts, and promotional service arrangements will be critical to avoid disputes.

Dhruva Comments

The treatment of post-sale discounts has long been a litigious area, with inconsistent interpretations between taxpayers and the Revenue. The CBIC's Circular now provides much-needed clarity on principal-to-principal arrangements and distinguishes cases where discounts are not linked to any independent promotional service by dealers. This clarification should go a long way in reducing ongoing disputes and offers a more settled framework for industry to rely upon.

At the same time, the Circular introduces a critical nuance, where a manufacturer has an agreement with the end-customer to supply

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