

CGST AMENDMENT ON CREDIT NOTE

Compliance burden on suppliers may be higher

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Tax experts have raised concern over the proposed amendment in the Central Goods and Services Tax Act, 2017 in the 2025-26 (FY26) Budget in respect of credit note that puts the onus on suppliers to ensure reversal of input tax credit (ITC) availed by the recipient in order to reduce their (suppliers') own tax liability.

Credit note is given by the seller to the buyer in cases of sales returns, discounts, and over-billing to reduce the amount payable by the buyer or adjust it against future payments.

According to the experts, till the time invoice management system (IMS) — an automated system to track and verify invoices issued by businesses to help them in claiming ITC, which was rolled out in October last year by the Centre — is made mandatory, there is no mechanism by which suppliers can check whether the recipient has reversed the corresponding ITC. Meanwhile, the experts are also ambiguous about the past transactions as the proposed amendment will not come into effect retrospectively.

In its 55th meeting held in December, the GST Council had approved amendment in subsection (2) of section 34 of the CGST Act to explicitly provide for requirement of reversal of corresponding ITC in respect of credit note, if availed, by the registered recipient, for the purpose of reduction of tax liability of the supplier in respect of the said credit note.

"This issue pertains mainly to businesses that operate in sectors with trade discounts, vol-

ume-based incentives, and preferred dealership programmes. This amendment increases the unfair burden on suppliers to ensure recipients' compliance, which is beyond their control. This could be challenged in court," said Sudipta Bhattacharjee, partner with Khaitan & Co.

Vivek Jalan, partner with Tax Connect Advisory Services, said the government has provided no mechanism for the supplier to check whether the recipient has reversed the corresponding ITC. "It will remain an issue till IMS is seamlessly implemented and made manda-

tory. Almost all taxpayers who have been issuing GST credit notes for the last eight years have been under the government's vigilance and scrutiny," Jalan added.

Meanwhile, government sources also confirmed that this has been a persistent issue since the GST regime was implemented in 2017. The government has issued show-cause notices to several companies regarding this matter.

However, a senior government official said: "Earlier too, there was a general understanding that ITC will be reversed for the recipient in respect of credit note for the purpose of reduction of tax liability of the supplier. Now, the GST law is being amended to mandate the same. These are enabling provisions to facilitate implementation of IMS and to prevent future litigation."

According to the official, the IMS hasn't yet been made mandatory as the Centre wants businesses to get comfortable with it first.

However, as per experts, the day this amendment is made effective, IMS will become mandatory.

As of now, there is no mechanism by which suppliers can check whether the recipient has reversed the corresponding input tax credit