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**GST - Treatment of Credit Notes / Debit Notes - reg.**

1 message

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**MAIL AIEMA** <mail@aiema.net>  
To: aiema <aiema@googlegroups.com>

14 September 2020 at 15:20



**AMBATTUR INDUSTRIAL ESTATE  
MANUFACTURERS' ASSOCIATION**



Dear Members,

Please find attached a circular received from Mr. K. Vaitheeswaran, GST Consultant regarding the treatment of "Credit Notes / Debit Notes in GST" is sent herewith for your reference.

Thanks & Regards,

C. Raju  
Hon. Gen. Secretary

ATC Road, Ambattur Industrial Estate, Chennai - 600 058.

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----- Forwarded message -----

From: <kvaithy@gmail.com>

Date: Thu, 10 Sep 2020 at 17:03

Subject:

To: Mani - Assistant <manigks@yahoo.com>

Dear Sir,

I am attaching below the treatment of CREDIT NOTES/DEBIT NOTES in GST .

*With best regards* 

*K. VAITHEESWARAN.*

Consultant.

90420- 86163/044-24891633

[kvaithy@gmail.com](mailto:kvaithy@gmail.com)

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**circular - Credit & Debit Notes under GST - 10.09.2020.docx**

23K

3<sup>rd</sup> August 2020

**Note & Credit Note | Section 34 | CGST Act 2017-**

1. Credit Note & Debit Note is described as a document on which tax incidence can be passed or excess tax can be refunded or credited back. Section 34 of the **CGST Act, 2017** covers the provisions of Credit Note and Debit Note.
2. Credit Note means a document issued by a registered person under section 34(1)

Section 34(1)	Where <b><i>one or more tax invoices have been issued</i></b> for supply of any goods or /and services and taxable value or tax charged in that tax invoice is found to exceed the taxable value or tax payable in respect of such supply, or where the goods supplied are returned by the recipient or where goods or services or both supplied are found to be deficient the registered person, who has supplied such goods or/and services, may issue to the recipient <b><i>one or more credit notes for supplies made during the financial year.</i></b>
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The words “ ***one or more tax invoices have been issued***” and “ ***one or more credit notes for supplies made during the financial year***” inserted *vide* CGST (Amendment) Act, 2018 w.e.f. 1-2-2019

Up to 31.01.2019, one credit note was allowed to be issued for one invoice. The reference of the corresponding original invoice was required to be shown in return against the credit note.

**3. Situations for issuing Credit and Debit Note:** – Debit Notes or Credit Notes can be issued only in the following specified situations:-

**3.1 Excess price or tax charged from the recipient:** The supplier can issue a Credit Note when the taxable value or tax charged in the tax invoice exceeds the taxable value or tax payable in respect of such supply. For Example, a registered person raised an invoice for Rs 6490 (5500 + 990) while the taxable value in respect of that supply was Rs 5900 (5000 + 900 ). The supplier can raise a credit note of Rs 500/- with a tax of Rs 90/- in order to correct the invoice.

**3.2 Goods returned:** Goods supplied are returned by the recipient

**3.3 Deficient Quality:** Goods or Services or both supplied are found to be deficient

#### **4. When Credit Notes cannot be issued:**

**4.1** The recipient cannot issue Credit / Debit Notes. It is the supplier who can issue Credit / Debit Notes under the GST Act.

**4.2 Credit Note with GST cannot be issued for bad debts.**

**4.3** Credit Note with GST cannot be issued on account of renegotiation of prices after supply if the price is reduced. In such cases, a credit note should be issued without showing GST. This would be more so when the recipient is in a position to avail of an input tax credit. Such credit note (without GST) is not required to be uploaded in monthly return – **Confirmed in CBI&C Circular No. 72/46/2018-GST dated 26-10-2018**

#### **5. The time limit for issuance of Credit Notes**

Section 34(2)	A supplier shall raise a credit note pertaining to a supply of a particular financial year, not later than the (i) the month of September following the end of the financial year in which such supply was made, (ii) date of furnishing the relevant annual return whichever is earlier.
<i>proviso</i> to section 34(2)	Reduction in output tax liability of the supplier shall be permitted if the incidence of tax and interest on such supply has been passed on to any other person.  Thus, if the credit note is not accepted by the recipient and if he <b><u>does not reverse equivalent input tax credit</u></b> , reduction in tax liability will not be allowed to supplier

**6. Credit Notes in GST Returns:-** The credit note raised is in respect of B2B supply will be shown in table 9 of GSTR 1 and for B2C supply it should be shown in table 7 of GSTR 1

#### **7. Debit Notes**

Section 34(3)	Where <b><i>one or more tax invoices</i></b> have been issued for supply of any goods or /and services and the taxable value or tax charged in that tax invoice is found to be less than the taxable value or tax payable in respect of such supply, the registered person, who has supplied such goods or services or both, shall issue to the recipient one or more debit notes <b><i>for supplies made during the financial year.</i></b>
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The words “***one or more tax invoices***” & “***for supplies made during the financial year***” inserted vide CGST (Amendment) Act, 2018 w.e.f. 1-2-2019.

The impact of Amendment is as that (a) One Credit/Debit Note for multiple tax invoices and multiple credit/debit notes for one tax invoice is permissible and (b) Credit /Debit Note should be financial year-wise i.e. one credit/debit note cannot cover tax invoices in multiple financial years.

**8. Situation to raise Debit Notes:** Debit note can be issued by the supplier of the goods or services or both, to the recipient, when subsequent to the issue of tax invoice he comes to know that taxable value or tax charged in that tax invoice is less than the taxable value or tax payable with respect to such supply

**9. The time limit for issuance of Debit Notes:** **There is no time limit for issuance of debit notes.**

### **10. Debit Notes in GST Return**

Section 34(4)	Any registered person who issues a debit note in relation to a supply of goods or/and services shall declare the details of such debit note in the return <b><u>for the month during which such debit note has been issued and</u></b> the tax liability shall be adjusted in such manner as may be prescribed
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**10.1 Explanation to section 34(4)** .’Debit Note’ shall include a supplementary invoice. If prices are increased after renegotiations, the supplier should issue a debit note or Supplementary Invoice with GST.

**11. Contents of Credit Note and Debit Note** As per **rule 53(1A)**, inserted w.e.f. 1-2-2019, Credit or Debit note shall contain the following particulars:

(a)	Name, address, and GSTIN of the supplier
(b)	Nature of the document
(c)	A consecutive serial number not exceeding sixteen characters, in one or multiple series, containing alphabets or numerals or special characters-hyphen or dash and slash symbolized as “-” and “/” respectively, and any combination thereof, unique for a financial year
(d)	Date of issue of the document
(e)	Name, address, and GSTIN of the recipient
(f)	Name and address of the recipient and the address of delivery, along with the name of State and its code, <b><i>if such recipient is unregistered</i></b>
(g)	Serial number(s) and date(s) of the corresponding tax invoice(s) or, as the case may be, the bill(s) of supply

(h)	Value of taxable supply of goods or services, rate of tax and the amount of the tax credited or, as the case may be, debited to the recipient
(i)	The signature or digital signature of the supplier or his authorized representative

**12. Financial/Commercial Credit Note without GST** – The Credit Note discussed under section 34 of the Act are with GST. However, Financial/Commercial Credit Note without GST can be issued. Financial/commercial credit note means credit note other than that specified in CGST Rules, i.e. without any GST implication. – **CBI&C Circular No. 92/11/2019-GST dated 7-3-2019 & 105/24/2019-GST dated 28-6-2019**

It is held by **AAR Karnataka in re Kwaliti Mobikes (P.) Ltd**( 2019 ) that volume discount received by the authorised dealer from the authorised supplier on purchases and sales of motor vehicles in the form of credit note without any adjustment of GST is financial Credit Note and are not liable to GST

**13. Credit Note in case of supply to unregistered person** – The **GSTN system does not allow** the issue of Credit Note with GST in respect of B2C supply as the tax invoice does not have GSTIN of the buyer. Hence, GST paid on **supply to the unregistered persons cannot be adjusted against other GST liability.**

However, there is no such restriction under section 34 of the CGST Act. CBI & C vide Q No. 34 of circular F No. 354/32/2019-TRU dated 7-5-2019 has clarified that the promoter can issue credit note under section 34 of the CGST Act and refund the amount with tax to the customer in case apartment is booked before 1-4-2019 but cancelled after 1-4-2019.

Point No. 22 of the circular further clarified that If the promoter refunds the total amount with GST, he can adjust the tax amount against other liability of GST including liability arising at the rate of 1%/5% GST payable, if the entire amount is refunded to the customer.

Though this clarification is in respect of the supply of apartments, the principle should apply to all B2C supplies made.

**14. Issue of Credit Note in case of time-expired drugs or medicines** – CBI & C vide **circular No. 72/46/2018-GST dated 26-10-2018** has clarified the mechanism to issue credit notes in respect of expired drugs or medicines:-

If time expired drugs or medicines are returned to the manufacturer-supplier, he can issue a credit note. If the goods are returned before 30th September of the following year, the manufacturer can issue a credit note with GST under section 34(2) of the CGST Act. In that case, the GST liability of the recipient will get reduced. The Credit Note will have to be uploaded. The tax liability can be adjusted

However, if such goods are returned after 30th September of the following year, the manufacturer-supplier can still issue credit note but without GST, as the GST in respect of supplies made in a financial year can be adjusted only up to return filed for September of the following year.

When such returned goods are destroyed by the manufacturer, he is required to reverse the ITC attributable to the manufacture of such goods, in terms of section 17(5)(h) of CGST Act.

Alternatively, the time expired goods may be returned by retailer/wholesaler by issuing a normal tax invoice. The manufacturer who receives such time expired goods can take ITC of the GST charged by the retailer/wholesaler. When the manufacturer destroys the rejected goods, he has to reverse the ITC availed by him, as per section 17(5)(h) of IGST Act.

## **SUGGESTIONS**

### **PURCHASE RETURNS**

1. You can return the Inputs rejected by you under cover of DEBIT NOTE/TAX INVOICE. With a separate Sl. No. with prefix of SR or PR or REJ. You can key in the GST invoice in GSTR-1 and 3-B.
2. For Sales return, request your Buyer to do the same and if he is not willing to raise DEBIT NOTE/TAX INVOICE, you can prepare CREDIT NOTE and account it in GSTR-1 & GSTR-3B and reduce your Tax liability to that extent.

*With best regards* 

**K. VAITHEESWARAN.**

Consultant.

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