



## NITYA'S INSIGHT

*Tax Alert | Tax adjustment on account of post sale discount*

July 22, 2015

Dear Reader,

This is to update you on a recent amendment made under the DVAT Act, 2004 ('DVAT Act') by the DVAT (Second Amendment) Act, 2015 ('Amendment Act') which came into force on July 15, 2015.

Under the DVAT Act, reduction of output tax (Section 8) and adjustment to input tax (Section 10) was permitted where the taxpayer (seller) passed on discount to the buyer. Such adjustment was permitted even when the discount was passed by way of a credit note after issuance of tax invoice.

Amendment Act has inserted an Explanation to Section 8 and Section 10 to disallow adjustment in output tax and input tax on account of discount offered by way of credit note to the buyer. Accordingly, the taxpayer would not be permitted to adjust the output tax liability on account of passing on post-sale discounts. Similarly, the buyer can take input credit of entire tax paid on purchase of goods and is not required to reverse the same on account of receiving discount.

It is pertinent to mention that in the statement of objects and reasons, it has been stated that monitoring of such discount adjustment is a tedious job and has no impact on overall revenues of VAT department.

Therefore, the grant of post-sale discount will have no tax consequence under DVAT Act on going forward basis. This amendment would have an important bearing for the taxpayers as the practice of giving discount (by way of credit note) and seeking output and input tax adjustment is being widely followed.

We hope that you will find this update useful. For any clarification, please feel free to revert.

Regards,

Team NITYA



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