

TAX INFO

Dated 30/11/2021

Latest update on GST Law: Information regarding **GST to be levied on Reimbursement of Discount** as given in **Ruling by AAR-Kerala**.

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Name of Applicant	Santosh Distributors
Authority	GST AAR Kerala
Date of Ruling	16/09/2021
Ruling No.	KER/60/2019

Brief Facts of the Case:

The applicant is an authorized distributor of M/s. Castrol India Ltd, Mumbai (Principal Company). The Principal Company is controlling and managing the entire marketing activities of their products. **The Principal Company's software is mandatory to all distributors and only through that software any distributor could conduct further supply of the products.** The Principal Company is having various rate schemes with dealers. The Principal Company is issuing invoices at a price to its distributors and the distributors supplying the goods to the dealers issue invoice based on the various rate scheme prefixed by the Principal Company. While the distributor generate invoice to dealers through the software designed by the Principal company, the invoice value of the products will be displayed only with the value after deducting discount as per the prefixed rate scheme. The distributor is bound to supply the products to the respective dealers as per the value shown in the invoice. Such discount/rebate will be subsequently reimbursed by the Principal Company as Commercial Credit Notes.

Questions on which the Ruling is Sought:

- i) On the tax liability of the applicant for the transactions mentioned herein and explained as above. The petitioner is paying the tax due as per the invoice value issued by the applicant and availing the input credit of GST shown in the inward invoice received by the applicant from the Principal Company or their stockist.
- ii) Whether the discount provided by the Principal Company to their dealers through the applicant attracts any tax under the GST laws.
- iii) Whether the amount shown in the Commercial Credit note issued to the applicant by the Principal Company attracts proportionate reversal of input tax credit.
- iv) Is there any tax liability under GST laws on the applicant for the amount received as reimbursement of discount or rebate provided by the Principal.

Findings and Ruling:

In the case of the applicant, the principal company is issuing Commercial Credit Notes for reimbursement of the scheme discount provided by the applicant to the customer as per instructions of the principal company. As the principal company is not reducing the original tax liability, the applicant will be eligible to avail the credit of the tax paid as per the invoice of the principal company. The applicant will not be required to reverse proportionate input tax credit.

The additional discount / scheme discount is given by the applicant to the customers as directed by the principal company and is intended to augment the sales volume by the offer of special discounted price to particular category of customers as identified by the principal company. As submitted by the applicant; the applicant has no control either on the quantum of scheme discount to be offered or on the category of customers to whom the scheme discounts are to be offered. The discounts so offered as per instructions of the principal company are completely reimbursed by the principal company. The additional discount/ reimbursed amount; is therefore liable to be added to the consideration payable by the customer to the applicant for the purpose of arriving at the value of supply of the applicant to the customer as per provisions of Section 15 of the CGST / SGST Act. Further, the customer, if registered, would only be eligible to claim ITC of the tax charged by the applicant only to the extent of the tax paid by the said customer to the applicant.

- i) On the tax liability of the applicant for the transactions mentioned herein and explained as above. The applicant is paying the tax due as per the invoice value issued by the applicant and availing the input credit of GST shown in the inward invoice received by the applicant from the Principal Company or their stockist.
The applicant is eligible to avail ITC shown in the inward invoice received by him from the principal company.
- ii) Whether the discount provided by the Principal Company to their dealers through the applicant attracts any tax under the GST laws.
It is established from the statement of the applicant that the prices of the products supplied by the applicant is determined by the principal company and the applicant has no control on the price of the products. Therefore, this additional discount reimbursed by the principal company to the applicant is liable to be added to the consideration payable by the customer to the applicant to arrive at the value of supply under Section 15 of the CGST / SGST Act at the hands of the applicant.
- iii) Whether the amount shown in the Commercial Credit note issued to the applicant by the Principal Company attracts proportionate reversal of input tax credit.
The principal company issuing the commercial credit note is not eligible to reduce his original tax liability and hence the applicant will not be liable to reverse the ITC attributable to the commercial credit notes received by him from the supplier.
- v) Is there any tax liability under GST laws on the applicant for the amount received as reimbursement of discount or rebate provided by the Principal.
The applicant is liable to pay GST at the applicable rate on the amount received as reimbursement of discount/ rebate from the principal company.

Suresh Aggarwal, Advocate

Compliance & Litigation under GST

Address: House No. 54, Pocket A-3, Sector-5, Rohini- 110085

Phone: 91-9810032846; 011 - 45131427

Email: sureshagg@gmail.com

Website: <http://www.sureshtaxation.com>