

Credit Note in GST

Introduction

A supplier of goods or services or both is mandatorily required to issue a tax invoice. However, during the course of trade or commerce, after the invoice has been issued there could be situations like:

- The supplier has erroneously declared a value which is more than the actual value of the goods or services provided.
- The supplier has erroneously declared a higher tax rate than what is applicable for the kind of the goods or services or both supplied.
- The quantity received by the recipient is less than what has been declared in the tax invoice.
- The quality of the goods or services or both supplied is not to the satisfaction of the recipient thereby necessitating a partial or total reimbursement on the invoice value.
- Any other similar reasons.

In order to regularize these kinds of situations the supplier is allowed to issue what is called as credit note to the recipient. Once the credit note has been issued, the tax liability of the supplier will reduce.

Meaning

Where a tax invoice has been issued for supply of any goods or services or both and the 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 services or both, may issue to the recipient what is called as a credit note containing the prescribed particulars.

Format

There is no prescribed format but credit note issued by a supplier must contain the following particulars, namely:

- (a) name, address and Goods and Services Tax Identification Number 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 symbolised as "-" and "/" respectively, and any combination thereof, unique for a financial year;
- (d) date of issue;
- (e) name, address and Goods and Services Tax Identification Number or Unique Identity Number, if registered, of the recipient;
- (f) name and address of the recipient and the address of delivery, along with the name of State and its code, if such recipient is un-registered;
- (g) serial number and date of the corresponding tax invoice or, as the case may be, bill of supply;
- (h) value of taxable supply of goods or services, rate of tax and the amount of the tax credited to the recipient; and
- (i) signature or digital signature of the supplier or his authorised representative.

Adjustment of tax liability

The person who issues a credit note in relation to a supply of goods or services or both must declare the details of such credit note in the return for the month during which such credit

Directorate of Commercial Taxes, West Bengal

Note: Reference to WBGST Act, 2017 includes reference to CGST Act, 2017 also.

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note has been issued but not later than September following the end of the financial year in which such supply was made, or the date of furnishing of the relevant annual return, whichever is earlier. In other words, the output tax liability cannot be reduced in cases where credit note has been issued after September.

The output tax liability of the supplier gets reduced once the credit note is issued and it is matched. The details of the credit note relating to outward supply furnished by the supplier for a tax period shall, be matched:

- (a) with the corresponding reduction in the claim for input tax credit by the recipient in his valid return for the same tax period or any subsequent tax period; and
- (b) for duplication of claims for reduction in output tax liability.

The claim for reduction in output tax liability by the supplier that matches with the corresponding reduction in the claim for input tax credit by the recipient shall be finally accepted and communicated to the supplier. The reduction in output tax liability of the supplier shall not be permitted, if the incidence of tax and interest on such supply has been passed on to any other person.

Where the reduction of output tax liability in respect of outward supplies exceeds the corresponding reduction in the claim for input tax credit or the corresponding credit note is not declared by the recipient in his valid returns, the discrepancy shall be communicated to both such persons. Whereas, the duplication of claims for reduction in output tax liability shall be communicated to the supplier.

The amount in respect of which any discrepancy is communicated and which is not rectified by the recipient in his valid return for the month in which discrepancy is communicated shall be added to the output tax liability of the supplier in his return for the month succeeding the month in which the discrepancy is communicated.

The amount in respect of any reduction in output tax liability that is found to be on account of duplication of claims shall be added to the output tax liability of the supplier in his return for the month in which such duplication is communicated.

Records

The records of the credit have to be retained until the expiry of seventy-two months from the due date of furnishing of annual return for the year pertaining to such accounts and records. Where such accounts and documents are maintained manually, it should be kept at every related place of business mentioned in the certificate of registration and shall be accessible at every related place of business where such accounts and documents are maintained digitally.

Conclusion

The credit note is therefore a convenient and legal method by which the value of the goods or services in the original tax invoice can be amended or revised. The issuance of the credit note will easily allow the supplier to decrease his tax liability in his returns without requiring him to undertake any tedious process of refunds.

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