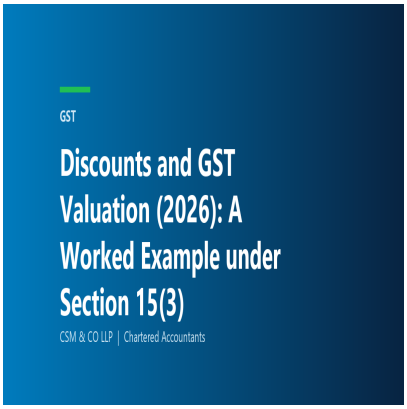


Discounts and GST Valuation (2026): A Worked Example under Section 15(3)

Description

Last updated: 18 September 2026 · Written and reviewed by CA Meet Dhrangadhariya, CSM & Co LLP

Update, 1 November 2026

The law described in this post has changed. Notification No. 03/2026-Central Tax dated 26 October 2026 brought sections 153 to 155 of the Finance Act, 2026 into force from **1 November 2026**. Section 15(3)(b) no longer requires a post-supply discount to be established by an agreement entered into at or before the time of supply and linked to specific invoices. What remains is that the supplier issues a credit note and the recipient reverses the input tax credit attributable to the discount, in accordance with section 34. The comparison below describes the position *before* that date. The new position is explained in full in GST Post-Sale Discounts: New Section 15(3)(b) Rules from November 2026.

Quick summary

- A discount shown on the invoice at or before the time of supply reduces the taxable value automatically - no separate agreement is needed.
- A discount given after supply reduces the taxable value only if it was agreed upon in writing before or at the time of supply, can be linked to the specific invoice, and the recipient reverses the matching input tax credit.
- An ad-hoc discount offered after supply, with no prior agreement, never reduces the taxable value, even if the seller genuinely needs the cash and the buyer genuinely pays less.
- A worked numeric example (a power-drill sale with a known early-payment discount versus an unplanned last-minute one) shows exactly how the same transaction is taxed differently depending on when the discount was agreed.
- With effect from 1 November 2026, sections 153 and 154 of the Finance Act, 2026 have removed the condition that a post-supply discount be established by an agreement entered into at or before the time of supply and linked to specific invoices. The recipient must still reverse the input tax credit attributable to the discount, and section 34 now lists such a discount as a ground for issuing a credit note.

Whether a discount reduces the GST payable on a sale, or leaves it untouched, turns entirely on timing and

paperwork - not on whether the discount was genuinely given. This post walks through the rule with a single running numeric example, as a companion to our broader valuation coverage under section 15.

The three categories of discount

Discounts given at or before the time of supply, shown on the invoice: these reduce the taxable value automatically. If a seller offers a 20% discount on goods worth Rs 1,000, the taxable value is Rs 800, with no further conditions.

Discounts given after supply: these reduce the taxable value only where **all three** of the following hold:

- The discount was agreed upon, in writing, before or at the time of supply.
- The discount can be clearly linked to the specific tax invoice it relates to.
- The recipient reverses the input tax credit proportionate to the discount.

Ad-hoc discounts given after supply, with no prior agreement: these never reduce the taxable value, however genuinely they are given, and regardless of whether they can be traced to an invoice.

Cash discounts for prompt payment are treated exactly the same way as any other discount under these same three categories - there is no separate, more lenient rule for them.

Worked example

XYZ, a wholesaler, sells a power drill to trader ABC for Rs 4,000, offering a 1% discount, and charges Rs 150 in packing charges. To encourage quick payment, XYZ also offers an additional 0.5% discount if ABC pays within 7 days.

Item	Amount (Rs)
Power drill	4,000
Packing charges	150
Discount @1% (on sale value)	(40)
Subtotal	4,110
CGST @9%	370
SGST @9%	370
Total	4,850

The 0.5% prompt-payment discount is not deducted on the original invoice, since it depends on whether ABC actually pays within 7 days. But because this discount was known and agreed at the time of supply, and can be linked to this specific invoice, it still qualifies for deduction once paid. XYZ issues a credit note for Rs 20 (0.5% of Rs 4,000), plus GST of Rs 3.60 on that amount, linked to the original tax invoice - and ABC reverses the corresponding input tax credit.

The same facts, with no prior agreement

Suppose instead that XYZ, facing a cash-flow problem, later asks ABC to pay within 2 days in exchange for an extra 1% discount, and ABC agrees. Because this discount was **not agreed before or at the time of supply**, it cannot be deducted from the transaction value at all, even though ABC genuinely pays 1% less. The GST invoice stays exactly as originally issued.

Summary table

When the discount is given	Deductible from transaction value?
On or before the time of supply, recorded on the invoice	Yes
After supply, but agreed in advance and traceable to the invoice (with ITC reversed)	Yes
After supply, with no prior agreement, regardless of traceability	No

What changed on 1 November 2026

Notification No. 03/2026-Central Tax dated 26 October 2026 brought sections 153 to 155 of the Finance Act, 2026 into force from **1 November 2026**. Section 15(3)(b) was substituted: the requirement of an agreement entered into at or before the time of supply, specifically linked to the relevant invoices, is gone. A discount given after the supply is now excluded from the taxable value if the supplier has issued a credit note for it and the recipient has reversed the input tax credit attributable to it, in accordance with section 34. The input tax credit reversal therefore survives; it is the advance-agreement test that has been dropped, which is what allows a year-end or volume discount to reduce the taxable value. Section 34(1) was amended at the same time to list a section 15(3)(b) discount as a ground for issuing a credit note.

How CSM & Co LLP can help

Documenting discount arrangements correctly at the time of the original sale - not after the fact - is what decides whether a later discount can actually reduce GST payable; please reach out to our team and we will be happy to assist with invoicing, credit notes and discount documentation.

Technical terms explained in simple words

Term	What it means
Transaction value	The price actually paid or payable for a supply, which forms the starting point for GST valuation.
Credit note	A document a seller issues to reduce the value or tax of an earlier invoice, used here to record a post-supply discount.

Term	What it means
Input tax credit (ITC) reversal	Reducing the credit a recipient has claimed, to match a discount that reduced the seller's tax liability on the same supply.
Ad-hoc discount	A discount decided after the fact, with no agreement made before or at the time of the original supply.

Frequently asked questions

Does every discount reduce the GST taxable value?

No. A discount given at or before the time of supply, and shown on the invoice, always reduces the taxable value. A discount given after supply reduces it only if three conditions are all met: it was agreed in writing before or at the time of supply, it can be linked to the specific invoice, and the recipient reverses the matching input tax credit.

What happens to an ad-hoc discount with no prior agreement?

It does not reduce the taxable value at all, even if it is genuinely given and the buyer genuinely pays less - the invoice's GST figures stay as originally charged, because section 15(3)(b)'s conditions were not satisfied.

Why does the recipient need to reverse input tax credit for a qualifying post-supply discount? +

Because the seller's tax liability reduces once the discount is applied, and GST does not allow a reduction in tax on one side of a transaction without a matching reduction in credit on the other side - otherwise government revenue would be lost on the discounted amount.

Does a prompt-payment or cash discount get treated differently from a trade discount?

No. A cash discount for early payment is treated the same as any other discount under section 15(3) - it reduces the taxable value if it meets the same conditions (known in advance, traceable to the invoice, and credit reversed if given after supply).

Is the ITC-reversal requirement for post-supply discounts changing?

The input tax credit reversal has not been removed. From 1 November 2026, section 15(3)(b) as substituted by the Finance Act, 2026 keeps the reversal requirement and drops the separate condition of an agreement entered into at or before the time of supply and linked to specific invoices. A post-supply discount now reduces the taxable value if a credit note is issued and the recipient reverses the attributable

credit, in accordance with section 34.

Official sources

- CBIC Tax Information Portal – Section 15, CGST Act, 2017 (Value of Taxable Supply)
- GST Portal

Related reading

- Valuation of Supply under GST (2026): Section 15, Transaction Value and Discounts

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Author
meetsoni