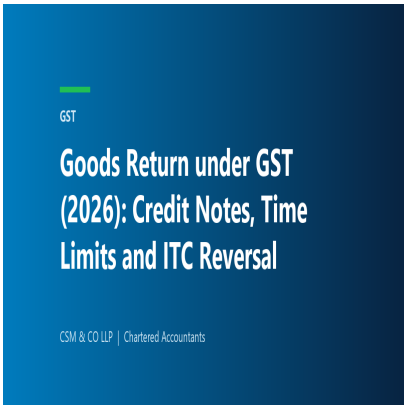

Goods Return under GST (2026): Credit Notes, Time Limits and ITC Reversal

Description

Last updated: 10 October 2026 · Written and reviewed by CA Meet Dhrangadhariya, CSM & Co LLP

Quick summary

- A sales return after GST has already been charged is handled through a credit note under section 34 of the CGST Act, not by cancelling or reversing the original invoice.
- A credit note for a return must be declared in GSTR-1 (now reported through GSTR-1A/IMS flows) by the earlier of 30 November following the end of that financial year, or the date of filing the annual return for that year - the old “30 September” deadline was extended by the Finance Act, 2022.
- Once the seller issues and declares the credit note, the buyer’s input tax credit is reduced to match, so the tax reduction on one side is mirrored by a credit reversal on the other - no net revenue loss to the government.
- Returns from a registered buyer are reported invoice-wise; returns from an unregistered buyer are reported as a consolidated figure, net of intra-State and inter-State splits.
- If a credit note is not declared within the time limit, the seller cannot reduce their output tax liability for that return, even though the goods have genuinely come back.

When a buyer sends goods back to the seller after a GST invoice has already been raised, the original invoice is never cancelled or reversed. Instead, the correction flows through a **credit note**, and the time limit for declaring that credit note decides whether the seller can actually recover the tax already paid on the returned goods.

The credit note is the mechanism, not the invoice

Section 34 of the CGST Act lets a registered seller issue a credit note where goods supplied are returned, found deficient, or where the value or tax charged in the original invoice turns out to be higher than what is actually due. The credit note must reference the original invoice and reduce the seller’s output tax liability for the period in which it is declared, not the period of the original sale.

Goods returned by a registered buyer

The seller issues a credit note and declares it, invoice-wise, in GSTR-1 for the month it is issued. Because the

buyer is registered, the credit note flows through to the buyer's credit ledger (via the return and statement ecosystem built around GSTR-2B), reducing the input tax credit the buyer can claim or retain by the same amount.

Goods returned by an unregistered buyer

There is no buyer GSTIN to match a credit note against, so the seller reports these as a **consolidated figure** in GSTR-1 rather than invoice-wise, with intra-State and inter-State returns shown separately (and e-commerce-sourced returns kept distinct from others, where applicable).

The time limit: a hard cut-off, not a guideline

A credit note for a return must be declared by the **earlier of**:

- 30 November following the end of the financial year in which the original supply was made, or
- the date of filing the annual return for that financial year.

This deadline moved from 30 September to 30 November with effect from the Finance Act, 2022 - a change frequently missed in older write-ups still quoting the earlier cut-off. Missing this date has a real consequence: the seller cannot reduce output tax liability for that return through the credit note mechanism at all, even though the goods have genuinely been returned and the money refunded. There is no separate relief route once this window closes.

Adjustment of tax liability, and why it is linked both ways

The seller's tax liability reduces only to the extent the buyer's credit is correspondingly reversed - GST does not allow one side of a transaction to keep a tax benefit the other side gives up. If the incidence of tax has effectively been passed on to someone else and cannot practically be reversed, the seller's liability is not reduced either. Similarly, where goods are returned but the money is, for some reason, not actually refunded to the buyer, the reduction in tax liability does not apply - the underlying principle is that nobody should profit at another's expense through a return that is return in form only.

How CSM & Co LLP can help

Getting credit notes declared correctly, within the time limit, and reconciled against the buyer's credit reversal is a recurring year-end compliance item - please reach out to our team and we will be happy to assist with return reconciliation and GSTR-1/GSTR-3B accuracy.

Technical terms explained in simple words

Term	What it means
Credit note	A document a seller issues to reduce the value or tax of an earlier invoice, used for returns, discounts given after sale, or a tax amount charged in excess.
Output tax liability	The GST a registered person owes on its own outward supplies for a tax period, before any input tax credit is set off against it.

Term	What it means
Input tax credit (ITC)	The GST already paid on purchases/inputs that a registered buyer can set off against its own output tax liability.
Invoice-wise reporting	Reporting a transaction against the specific original invoice it relates to, so it matches to a specific buyer's records.
Consolidated reporting	Reporting a total figure for a category of transactions (here, returns from unregistered buyers) rather than against individual invoices, since there is no buyer GSTIN to match against.

Frequently asked questions

How does GST treat goods that are returned after sale?

Through a credit note issued by the seller under section 34 of the CGST Act, rather than by cancelling the original invoice. The credit note reduces the seller's output tax liability and correspondingly reduces the buyer's input tax credit.

By when must a credit note for a sales return be declared?

By the earlier of 30 November following the end of the financial year in which the original supply was made, or the date of filing the annual return for that year. This deadline was extended from 30 September by the Finance Act, 2022.

What happens if the credit note is declared after the deadline?

The seller loses the ability to reduce output tax liability for that return through GST, even though the goods have physically come back - the time limit is strict.

Is a return from an unregistered buyer reported differently from one by a registered buyer?

Yes. Returns from registered buyers are reported invoice-wise so the credit note flows to the specific buyer's credit ledger. Returns from unregistered buyers are reported as a consolidated figure, split between intra-State and inter-State, since there is no buyer GSTIN to match the credit note against.

Does the buyer need to do anything when a credit note is issued?

The buyer's input tax credit reduces automatically to match the declared credit note; if the buyer had already claimed credit on the original invoice, that excess credit is reversed to that extent.

Can a seller refuse to pass on a credit note and keep the tax collected?

No. GST works on the principle that tax collected without a corresponding supply should not be retained - if the incidence of tax was passed on to the buyer and the amount is not actually refunded to them, the seller's output liability is not reduced either, since that would mean profiting from the return.

Official sources

- CBIC Tax Information Portal - Section 34, CGST Act, 2017 (Credit and debit notes)
- GST Portal

Related reading

- GST on Waste and Scrap (2026): 2% TDS and Reverse Charge for Plastic, Tyre, E-waste and Used Cooking Oil
- GST and Exports (2026): Foreign Branches, Testing and Repair Work, SEZ Delivery and Faster Refunds
- How to Cancel GST Registration (2026): Form GST REG-16, Auto Acceptance and Revocation

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