

DIFFERENCE BETWEEN DEBIT NOTE AND CREDIT NOTE

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After issuance of the original invoice, there could be changes like change in value, change in tax amount or rate, or any other similar change. It happens in the normal course of business, in this instance "Debit/Credit Note" is issued to give the effect of changes in the account.

What is Debit Note and Credit Note?

A Debit or credit note is a document to give the effect of any increase or decrease in the amount of the original invoice.

In the case where the invoice amount needs to be increased in comparison to the original invoice amount then the supplier issues a debit note. It gives a debit effect to the account to whom the debit note is issued.

Example 1: Mr. A sold goods worth Rs 1,100 to Mr. Y But by mistake, the invoice was issued only for Rs 1000 and it came to notice after 2 days. In this case, Mr A issues a debit note for Rs 100 to Mr Y.

On the other hand where the invoice amount needs to be decreased in comparison to the original invoice amount then the supplier issues a credit note. It gives a credit effect to the account to whom the credit note is issued.

Example 2: Mr. A sold goods worth Rs 900 to Mr. Y But by mistake, the invoice was issued for Rs 1000. In this case, Mr A issued a credit note for Rs 100 to Mr Y to give the credit effect of the difference amount.

Debit and Credit Note in GST Act

A Debit and credit note has the same importance that the tax invoice has under the GST Act.

Debit Note

The definition of "Debit note" is given under section 2(38) of the CGST Act, 2017- "Means a document issued by the registered person under section 34(3) of the act."

According to the provisions of section 34(3) of the act - A debit note should be issued when the taxable value or the tax amount charged in the original invoice is less as compared to the actual taxable value or tax amount in respect of the supply made.

The issuance of a debit note by the supplier increases the tax liability. It is an essential document to claim the input tax credit. Supplementary invoice is also treated as debit note as per the explanation provided under the section.

Example 3: Suppose, Mr Abhi (supplier) has issued a tax invoice to Mr Bhide (recipient). Mr Abhi erroneously declared the taxable value as Rs 3,00,000 instead of the actual taxable value Rs 5,00,000. In this case, Mr Abhi will issue a debit note for Rs 2,00,000 charging appropriate tax thereon. The tax liability will also increase on an increased value of Rs 2,00,000 at the applicable tax rate.

Reason to issue Debit note

Some illustrative situations where tax invoice value increases and to give effect of such increase, a debit note is required to be issued by the supplier are as follows:

- When the actual value of goods or services is higher and the supplier wrongly issued tax invoice at a lesser taxable value.
- When the actual tax rate of goods or services is higher and the supplier has wrongly issued a tax invoice mentioning a lower tax rate.
- The quantity received by the recipient is higher than the actual quantity declared by the supplier in the tax invoice
- Any other similar reason.

Time Limit

The time limit to issue a debit note is provided under section 34(4) of the act. However, this time limit is for the declaration of tax liability due to changes. In other words, there is no time limit for issue a debit note to the supply for which a debit note is required to be issued. The time limit provided in the section is for furnishing the details of the debit note in the GST return. The supplier must declare the details of the debit note in the return of the respective month

Reflection in GST return: Debit Note

A Debit note is an important document to avail the Input tax credit therefore its reflection in the GST return is important. Furnishing of the details of the debit note by the supplier and reflection in the recipient account is mentioned as under:

- Supplier furnishes the details of debit notes at the time of filing of GSTR-1.
- Supplier pays the differential tax liability in GSTR-3B of the relevant month.

- According to the details furnished by the supplier, details of tax paid reflects in the GSTR-2B of the recipient as input tax credit.
- The recipient can claim this input tax credit at the time of filing of GSTR-3B.

Credit note

The definition of "Credit note" is given under section 2(37) of the CGST Act, 2017- "Means a document issued by the registered person under section 34(1) of the act."

As per section 34(3) of the act - A credit note should be issued when the taxable value or the tax amount charged in the original invoice is more than the actual taxable value or tax amount in respect of the supply made.

The issuance of a credit note decreases the tax liability. But it should be noted here if the credit note is not accepted by the recipient and denied to reverse the input tax credit. The tax liabilities do not result in reduction.

Example 4: Suppose, Mr. S (supplier) has issued a tax invoice to Mr. R (recipient) for the taxable value of Rs 1,00,000. Out of which the value of Rs 10,000 goods found faulty and returned by Mr R to Mr. S. Now, in such a case Mr. S issues a credit note for Rs 10,000 to Mr R.

Reason to issue Credit note

Some illustrative situations where tax invoice value decreases and to give the effect of such decrease, a credit note is required to be issued by the supplier are as follows:

- The supplier has erroneously declared a value that 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 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.
- On account of sales return
- Post-sale discount as per the agreement at the time of supply
- Any other similar reasons.

Time Limit

Like a debit note, the time limit to issue a credit note is also not prescribed. The time limit to furnish the details of a credit note in the GST return is prescribed under section 34(2) of the act. The registered person who is required to issue the credit note must furnish the details of the credit note earlier of the following dates

- 30th November following the end of the respective Financial Year in which the supply is made; or
- The date of furnishing the relevant annual return.

Based on the above provision, it can be concluded that a credit note should be issued and the details need to be furnished within the time as prescribed above.

Reflection in GST return: Credit Note

A Credit note issued by the supplier results in a reduction of the tax liability. The registered person issuing the credit note must furnish the details of the credit note within the time as prescribed. If details are not furnished within such time the tax liability cannot be reduced.

- Supplier furnishes the details of credit note in form GSTR-1
- According to the details furnished by the supplier, details of tax reduction reflects in the GSTR-2B of the recipient as input tax credit.
- This Input tax credit will be auto-populated in table 4B(2) of GSTR-3B which is for reversal of the Input tax credit.

Format of Debit note and credit note

Under the GST act particular format is not prescribed but particulars that a debit note or credit note should contain are provided under the CGST rule 53(1A). As per this rule, a debit note or credit note must contain the following particulars:

- Name, address and Goods and Services Tax Identification Number of the supplier;
- Nature of the document;
- A consecutive serial number of the document
- Date of issue;
- Name, address and Goods and Services Tax Identification Number or Unique Identity Number, if registered, of the recipient;
- Name and address of the recipient and the address of delivery, along with the name of State and its code, if such recipient is unregistered;
- Serial number and date of the corresponding tax invoice or, as the case may be, bill of supply;
- Value of taxable supply of goods or services, rate of tax and the amount of the tax credited to the recipient; and
- Signature or digital signature of the supplier or his authorized representative.
- Difference between Debit Note and Credit Note

Particulars	Debit Note	Credit Note
Section defining	The Definition of a Debit Note is given under section 2(38) of the CGST Act	The Definition of a Credit Note is given under section 2(37) of the CGST Act
Reason to issue	In cases where the taxable value or tax charged in the tax invoice is less as compared to the actual taxable value or tax payable.	In cases where the taxable value or tax charged in the tax invoice is more as compared to the actual taxable value or tax payable.
Impact on tax liability	Issue of Debit Note increases tax liability of the supplier.	Issue of Credit Note decreases tax liability of the supplier.
Impact on Input Tax Credit (ITC) for the recipient	The recipient can claim ITC	The recipient is required to reverse the ITC as per the Credit note

FAQs

Q. Can a registered person issue more than one credit/debit note for a tax invoice?

A. Yes, for one invoice one or more credit or debit notes can be issued

Q. Can a registered person issue one credit/debit note for more than one tax invoice?

A. Yes, for multiple tax invoices one credit /debit note can be issued.

Q. Can a recipient of goods or services or both issue a credit/debit note?

A. In the common commercial practice recipient can issue the debit/credit note. But in GST it breaks the flow of tax liability and reversal of ITC, therefore this document must be issued by the supplier and also he is required to furnish the details in the return of the relevant month.