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Retrospective Price Hike charged through Debit Note, warrants Interest payment as well

The GST Appellate Tribunal, State Bench Bengaluru (**"GSTAT"**) in ***Gopinath TM v. Mukand Limited [APL/258/BUR/2026 dated October 07, 2026]*** partly allowed the Revenue's appeal and held that interest under Section 50 of the Central Goods and Services Tax Act, 2017 (**"the CGST Act"**) is payable on the differential tax discharged through debit notes/supplementary invoices issued under Section 142(2)(a) pursuant to a retrospective upward price revision under a pre-GST contract, since the enhanced value relates back to the original date of clearance; however, the Tribunal upheld the dropping of penalty under Section 122 as the default arose from a bona fide interpretation of the transitional provisions.

Facts:

- Mukand Limited (**"the Assessee"**) cleared goods during April 2017 to June 2017 under the erstwhile pre-GST regime. The contracts contained price escalation clauses and the transaction values were subsequently revised upwards.

- Pursuant to the revision, the assessee issued debit notes/supplementary invoices under Section 142(2)(a) of the CGST Act on September 29, 2018 and October 15, 2018 and discharged the differential tax of Rs. 54,44,190 by reporting the same in GSTR-1 and paying through GSTR-3B of those months, without paying interest.

- The Assistant Commissioner, Hosapete Division vide Order-in-Original (OIO) dated March 28, 2022 confirmed the appropriation of tax and demanded interest of Rs. 13,85,623 under Section 50 along with penalty under Section 122 (Rs. 5,44,419).

- The Additional Commissioner (Appeals), Belagavi vide Order-in-Appeal (OIA) dated June 30, 2023 set aside the interest and the penalty, holding that the due date for discharging GST on supplementary invoices is the 20th of the month following their issuance.

- Aggrieved, the Revenue preferred an appeal before the GSTAT. The **Revenue contended** that whether tax is "due" depends on the time of supply under Section 12 and not on the date of the debit note; that Sections 39(7) and 34(4) are merely reporting machinery; and that penalty was wrongly dropped as tax was due from the date of the actual supplies.

- The **assessee contended** that declaring the debit notes in GSTR-1 and paying tax in GSTR-3B for the month of issuance is timely compliance under Sections 39(7) and 34(4); that Section 12 does not apply to pre-GST removals and Section 142(2)(a) deems the supplementary invoice to be an outward supply under the GST law with a 30-day window; that *Steel Authority of India* is inapplicable since its request for provisional assessment under the earlier regime was denied; and that penalty must fall if interest fails.

Issues:

1. Whether a retrospective upward price revision under a pre-existing contract, treated as a deemed outward supply under Section 142(2)(a) of the CGST Act, extinguishes the historical interest liability on delayed payment of tax, or whether the enhanced value relates back to the date of original clearance so as to attract interest under Section 50?

2. Whether Sections 39(7) and 34(4) of the CGST Act shift the due date for payment of differential tax to the 20th of the month following the issuance of the debit note?

3. Whether the ratio of the Supreme Court in *Steel Authority of India Ltd.* is inapplicable merely because the assessee was denied provisional assessment under the erstwhile regime?

4. Whether penalty under Section 122 is imposable where the differential tax was voluntarily discharged under a bona fide understanding of the transitional provisions?

Held:

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The GST Appellate Tribunal, State Bench Bengaluru in ***APL/258/BUR/2026*** held as under:

- Observed that, in terms of the larger Bench ruling of the Hon'ble Supreme Court in *Steel Authority of India Ltd. v. CCE* (paragraph 63), where a price escalation operates retrospectively, the finalised price is the true value of the goods even at the time of original removal; treating tax as payable only when prices are finalised or supplementary invoices are raised does violence to the Act.

- Noted that the deeming fiction in Section 142(2)(a) is only a procedural and administrative gateway to report the differential transaction, issue a GST-compliant debit note and discharge tax through the portal. It neither creates a fresh charging event nor alters the original point at which the enhanced value accrued, and is not a "legal time-machine" that erases the time-value of money enjoyed by the assessee.

- Held that Sections 39(7) and 34(4) are purely procedural reporting mechanisms and do not shift the due date; the "fresh tax point" theory under Sections 12 and 142(2)(a) is untenable. As the differential tax relates back to the original clearance period, interest under Section 50 attaches automatically.

- Held that the *Steel Authority* ratio rests on the economic reality of price variation clauses and not on the label of "provisional assessment"; denial of provisional assessment is a distinction without a difference.

- Held that penalty under Section 122 is unwarranted as the differential tax arose from a contractual escalation during a complex legislative transition, without suppression or deliberate non-compliance, and was voluntarily discharged on finalisation of prices.

- Directed that the OIA be set aside to the extent it deleted interest, and that the interest demand of Rs. 13,85,623 under Section 50 be restored and upheld; the dropping of penalty is confirmed and the Revenue's appeal is partly allowed.

Our Comments:

Provisions invoked: Section 142(2)(a) of the CGST Act is a transitional provision. Where, in pursuance of a contract entered into before the appointed day (July 01, 2017), the price of goods or services is revised upwards on or after that day, the registered person who removed or provided them must issue a supplementary invoice or debit note within thirty days of the price revision, and such document is deemed to have been issued in respect of an outward supply made under the GST law. Section 50(1) imposes an automatic and compensatory liability to pay interest, at the notified rate of 18% per annum, on tax not paid within the prescribed period, running from the day succeeding the due date till the date of payment. Section 39(7) requires payment of tax by the last date for furnishing the return, Section 34 requires a debit note to be declared in the return for the month of its issuance, and Section 12 governs the time of supply of goods. The real contest is whether the deeming fiction in Section 142(2)(a), read with Sections 34 and 39(7), moves the "due date" to the month of the debit note, or whether the due date remains anchored to the original supply.

Pari materia judgments: The Tribunal has transplanted the excise jurisprudence on price variation into the GST framework. The following rulings support the view taken:

- *Steel Authority of India Ltd. v. Commissioner of Central Excise, Raipur* [2019 (366) ELT 769 (SC) dated May 08, 2019] - The Hon'ble Supreme Court (three-Judge Bench) held that where the price is revised retrospectively under an escalation clause, the revised price is the price even at the time of removal, and interest under Section 11AB of the Central Excise Act, 1944 is payable on the differential duty from the date of removal and not from the date of the supplementary invoice. The Tribunal read this as reaffirming *CCE v. SKF India Ltd.* [(2009) 13 SCC 461] and *CCE v. International Auto Ltd.* [(2010) 2 SCC 67].

- *Traco Cable Co. Ltd. v. Commissioner of Central Excise & Customs* [2021 SCC OnLine CESTAT 2595 dated November 01, 2021] - CESTAT, applying *Steel Authority*, held that supplementary invoices relate to the date of original clearance and interest on the

differential duty is payable, while setting aside the penalty for want of any violation. The approach on both interest and penalty is consistent with the present ruling.

Contrary views: Under the GST regime, a first appellate authority (Commissioner (Appeals), CGST, reported in February 2026) had taken a view in favour of taxpayers in a similar fact pattern. It held that a debit note for price escalation is a supplementary invoice, that its time of supply falls under the residuary clause of Section 12 (the date on which the return is due) and not on the original supply, and that Section 50(1) is attracted only on failure to pay within the prescribed period; interest and penalty were accordingly set aside. That reasoning is substantially the same as the OIA in the present case and now stands displaced by this Tribunal ruling, although an order of a State Bench is only persuasive outside its territorial jurisdiction. Before the larger Bench settled the law under the excise regime, certain CESTAT benches had also held that no interest is payable on supplementary invoices raised on a later-crystallised escalation [CESTAT, New Delhi - 2018 (6) TMI 78]; that line of reasoning stands overtaken by *Steel Authority*.

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Our view: The ruling brings welcome clarity for supply contracts with price variation clauses, but a few aspects deserve attention. First, the Tribunal treats Section 142(2)(a) as purely procedural, whereas the text deems the supplementary document to be an outward supply "made under this Act". Section 50 presupposes tax payable under the GST law, and for April 2017 to June 2017 clearances the original liability was under the earlier regime; the order does not examine how the interest period is reckoned for the pre-July 01, 2017 stretch and simply restores the OIO quantification. Second, the issue involves interpretation of a transitional provision and may well be a substantial question of law for an appeal to the High Court under Section 117 of the CGST Act, which can be filed within 180 days. Third, the penalty relief rests on the absence of suppression and on voluntary payment on finalisation of prices, which is fact-specific.

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