

Credit Note: Enforceable Settlement in Industrial Procurement

A credit note is a commercial document by which a seller or supplier reduces a receivable in full or in part or refunds money to the customer. In industrial procurement, credit notes typically arise from complaints, returns, price deviations, incorrect deliveries or agreed rebates and discounts. For buyers, the proper management and control of credit notes is an essential component of efficient invoice verification and working capital optimisation.

Key facts

- A credit note reduces the payment obligation towards the supplier or establishes a refund – in practice it often replaces the classic invoice correction by the buyer.
- Common triggers are returns, quantity and price deviations, incorrect deliveries, early payment discount and rebate agreements, as well as freight or packaging cost arrangements.
- Invoice and credit note are formally separate documents; in accounting they must be assigned cleanly so as not to distort plan-actual comparisons and cost offsetting.
- Missing or late credit notes lead to open invoices, dunning processes and unnecessary strain on the supplier relationship.
- In practice, the digital credit note request is handled via ERP workflows with reference to the PO Order, the delivery note or the complaint number.
- For VAT issues – for example regarding tax presentation and documentation requirements – the individual case must be reviewed.

Definition: credit note

The credit note (also known as a credit memo or English 'Credit Note') is an invoice adjustment document by which the supplier reduces an already issued receivable or credits consideration that has not been invoiced.

Distinction from invoice correction

Formally, two variants are distinguished: with a credit note issued by the seller, the seller corrects their own invoice, for example after a return or an incorrect price calculation. With a credit note issued by the buyer – in practice also known as 'self-billing' or, in automated processes, as a deduction from the invoice total – the recipient records the value reduction themselves and remits the VAT to the supplier; this form has been increasingly phased out for years and involves particularities in terms of input VAT and tax. The detailed review in each individual case, particularly regarding tax presentation and documentation obligations, must be carried out within the buyer's own organisation or with tax advisors.

- Credit note issued by the supplier: common for returns, short deliveries and complaints
- Credit note issued by the buyer (self-billing): for agreed source deductions or automated deductions; review for tax purposes

- Powers of attorney for credit notes that discharge the business partner should be agreed in writing

Legal context

Credit notes are subject to the general invoice and tax rules; formal requirements such as mandatory statement content or tax presentation may differ depending on the issuance variant. Contractually, the procurement contract should specify in which cases a credit note is issued, within what deadline and in what format – for example as a structured electronic document file. The governing law and the legal form of the agreement also affect enforcement and the statute of limitations; the provisions of the individual contract or framework agreement are decisive here.

Triggers and methods: when credit notes arise in procurement

In the industrial supply chain, there is a recurring series of occasions on which credit notes establish the correct value reconciliation between performance and remuneration.

Quantity, quality and price triggers

The most common case is the return or complaint: incoming goods inspection, rework or sorting reveals deviations from the agreed acceptance criteria target state, for example when inspection instruction results show deviations from the supplier quality target. Missing quantities, over-deliveries or incorrectly calculated invoice line items compared with the PO Order also lead to value reductions. A clean process requires that the credit note references exactly the affected purchase order line, the delivery note and the invoice number.

- Returns and replacement deliveries following a complaint
- Partial quantities, over-deliveries or incorrect invoicing prices
- Price reductions from framework agreements, volume discounts or bonus models

Terms, rebates and contract discounts

Many procurement contracts provide for annual rebates, volume discounts or market adjustments – for example in cases of raw material price volatility or agreed adjustment clauses. In practice, these amounts are frequently settled via credit notes, either automatically upon target achievement or after an agreed settlement break. It is important that the calculation basis is clearly defined in the contract to avoid disputes in the plan-actual comparison.

Logistics and process costs

In addition, credit notes arise for packaging, freight or downtime costs when the supplier fails to perform or performs only partially the contractually assumed services. In project procurement and for longer lead times, part of the agreed payments may also be set off or recorded as a credit note in the event of delay or defective performance.

Process design: credit note requests in the procurement workflow

Efficient credit note processes are integrated into the overall flow of ordering, goods receipt, invoice verification and payment – manually managed individual cases lead in practice to open items and friction losses.

From goods receipt to credit note request

The starting point is usually the documented goods receipt or the complaint notification. The buyer or

the invoice verification process identifies the deviation, reviews the contractual situation and requests a credit note from the supplier with clear reference (PO Order, invoice number, complaint ID). In ERP systems, this process is usually set up as a separate document type and automatically linked to the affected purchase order and invoice line items. Even with call-off orders from framework agreements, a clean reconciliation of called-off and delivered quantities is the basis for correct credit note amounts.

Digital workflows and automation

In many companies, the credit note request today runs through workflows with escalation levels, deadline control and automatic offsetting against open invoices. With increasing digitalisation – for example AI in procurement for automated document recognition or deviation analysis – even smaller amounts can be pursued efficiently that were previously classified as uneconomical. The data basis for this is provided by structured master data, for example from clean material classification or a consistent material group hierarchy.

Key KPIs: managing credit notes measurably

To assess the efficiency of credit note processes and supplier performance, a number of KPIs have become established in practice.

Key performance indicators

The most important metric is the credit note ratio, i.e. the share of credit note amounts in invoice volume, relating to a period or a supplier. In addition, the average lead time from complaint to credit note receipt and the number of open credit note claims are measured. For high-volume A-suppliers, a differentiated analysis by trigger class – quantity deviation, quality defect, terms discount – is worthwhile in order to derive targeted measures within supplier development.

Positioning in the supplier portfolio

Credit note KPIs can be combined well with quality seals such as Run at Rate results or the supplier quality target. If deviations are systematically recorded, this can feed into the supplier assessment as part of supplier development or A-supplier categorisation – or into the make-or-buy assessment for critical material groups.

Risks and controls: avoiding typical sources of error

Credit note processes carry operational and tax risks that can be managed with clear rules and controls.

Operational risks

Common errors are missing reference to the original invoice, unclear responsibilities in the request process, and late or never-requested credit notes – particularly for small amounts or after staff changes. Incomplete offsetting against open invoices also leads to unresolved differences and burdens the plan-actual stock comparison in the warehouse or in material planning. For the acceptance criteria and the documentation of goods receipt or quality deviations, a clear inspection instruction and evidence trail are prerequisites for an enforceable claim.

Tax and compliance aspects

The tax presentation, documentation obligations and the question of whether a credit note reduces a receivable or establishes a separate payment must be reviewed on a case-by-case basis – particularly

for cross-border deliveries, Incoterms such as CIF and complex price agreements. Even with downstream arrangements such as CO2 pricing or CBAM in the supply chain, the settlement of cost components may take place via credit notes; contractual clarification and tax assessment should be reviewed in advance here.

Control and transparency

Effective controls include clear assignment of responsibility, deadline control with escalation for overdue credit notes, four-eyes review for high amounts and regular reporting on open claims. The results should be taken into account as part of the Category Vision and process costing in order to make the full economic benefit of the credit note processes visible.

Current developments: digitalisation, sustainability and AI

Credit note processes are changing due to increasing automation, growing data integration and new regulatory requirements regarding price and sustainability components.

E-invoicing and structured documents

The transition to structured electronic document formats in the DACH region also makes credit notes machine-readable and facilitates automatic matching to purchase orders, goods receipts and complaints. Companies with a clean master data basis – for example through ECLASS classification or a consistent material group hierarchy – benefit most here. In practice, implementation usually proceeds step by step along the invoice and correction processes.

Automated deviation detection

With AI in procurement, deviations between order, goods and invoice data can increasingly be detected automatically, for example price differences in situations of high raw material price volatility or quantity deviations in series deliveries. Such systems provide the data basis for an early credit note request and relieve the operational invoice verification. The prerequisite is structured data quality, which is often already established during demand planning and the request for quotation.

Sustainability and cost components

With the increasing relevance of CO2 pricing, CBAM and sustainability documentation, price and cost components are also migrating into settlement that were previously not shown separately. Credit notes are thus also becoming an instrument for correctly reclaiming cost components not rendered or reduced – for example for processed upstream products not delivered or for deviating emission values. The contractual regulation of such components should be considered early on in preferential duty calculation and the request for quotation.

Typical metrics

Credit note ratio: typically < 2% of invoice volume

Share of credit note amounts in total invoice volume; a higher value indicates quality or process deviations

Lead time from credit note request to receipt: often 5–20 working days

Time from the request until the issued credit note is received by the buyer

Open credit note claims: target: close to 0 beyond the due date

Number or volume of credit notes not received or not offset after the agreed deadline has expired

Practical example

A mid-sized mechanical engineering company procures precision-milled components from an A-supplier. Following an incoming goods inspection in accordance with the agreed inspection instruction, quality assurance determines for one delivery that around five per cent of the parts are outside tolerance and therefore do not meet the agreed acceptance criteria. The buyer documents the deviation with photos and an inspection report, links the notification to the PO Order and requests a credit note from the supplier for the rejected quantity. In parallel, the delivery rating in the supplier quality target reporting is updated. Within the agreed deadline, the supplier issues the credit note; it is automatically offset against the open invoice.

- Document the deviation directly in the goods receipt system with reference to the PO Order and inspection instruction
- Request the credit note with a clear deadline and reference invoice, escalate in the event of no response
- Offset the credit note amount against the open invoice and link the posting traceably in the ERP
- Incorporate the deviation into the delivery rating and the supplier quality target reporting

Conclusion

For industrial buyers, the credit note is far more than an accounting correction instrument: it safeguards the commercial accuracy of settlement, makes supplier deviations visible and protects working capital. The prerequisite is a clean process with clear responsibilities, deadline control and a consistent data basis from purchase order to payment settlement. With digital workflows and automated deviation detection, even small amounts can be pursued economically. Those who manage credit notes systematically also improve data quality for supplier evaluation and demand planning. The tax treatment should be reviewed on a case-by-case basis.

Frequently asked questions

What is a credit note and when is it issued?

A credit note is a commercial adjustment document by which a seller reduces a receivable in full or in part or records a refund. Typical triggers in procurement are returns, complaints, quantity and price deviations from the purchase order, and agreed discounts or rebates. In practice it is usually issued by the supplier and offset against the original invoice.

Who may issue a credit note – supplier or customer?

As a rule, the supplier issues the credit note, particularly for returns, incorrect deliveries or price deviations. A credit note issued by the buyer (self-billing) is possible in certain constellations, but involves tax and formal particularities and should be reviewed in advance. It is advisable to agree contractually who issues the credit note in which cases and in what form.

What is the difference between a credit note and an invoice correction?

In an invoice correction, the buyer pays the corrected amount and documents the difference; the invoice formally remains unchanged. With a credit note, the seller records the value reduction as a separate document that is linked to and offset against the original invoice. In practice, the credit note is now the more common route because it simplifies reconciliation in ERP systems.

As a buyer, how do I properly request a credit note?

The request should be made in writing or via the ERP workflow with clear reference to the purchase order, delivery note, invoice number and complaint ID. Important elements are a clear monetary justification, evidence of the deviation (e.g. an inspection report or goods receipt documentation) and a defined deadline with escalation. Once received, the credit note should be offset against the open invoice automatically or manually.

Is a credit note relevant for VAT purposes?

Yes, credit notes affect VAT because they can change the tax base of an existing supply. The tax presentation and documentation requirements differ depending on the issuance variant and the individual case. The assessment should therefore be carried out on a case-by-case basis, and for cross-border transactions or complex pricing models, with tax advisors.

What should I do if the supplier does not issue a credit note?

First, the request should be escalated again with a deadline and evidence and, if necessary, enforced via the contractual defect provisions. In parallel, the amount can be withheld when offsetting against open invoices or asserted as part of contractual penalty and returns processing. Complete documentation of the deviation and the correspondence is essential so that the claim remains enforceable.