

V K DINESH & SENTHILRAJA
CHARTERED ACCOUNTANTS

Input Service Distributor

A : B-1, First Floor, Shanthi Apartments,
18, TTK Road 1st Cross Street,
Alwarpet, Chennai - 600 018.

P : +91 44 - 2435 0011 / 7960 4043

M : team@vkds.in W : www.vkds.in

Input Service Distributor (ISD) - Provisions and Challenges



Overview of ISD



Importance in
GST framework











Objective of the
presentation



ISD Registration

Section Reference:

-  *Section 2(61)*
-  *Section 20*
-  *Section 21*
-  *Rule 39*
-  *Rule 54*
-  *Circular 71/45/2018*
-  *GSTR 6*



Is it mandatory? **A VERY BIG Yes!!!**

Due to amendment in Section 20

Section 20(1) – ISD shall get registered under section 24 and shall distribute the credit

Section 20(2) – ISD shall distribute the credit (the word “MAY” is replaced by “SHALL”)

Section 2(61) - Definition

- ❑ Means an **office** of the **supplier** of goods or services or both
- ❑ Which receives **tax invoices** towards the receipt of input services,
- ❑ Including invoices in respect of **services** liable to tax under sub-section (3) or sub-section (4) of section 9,
- ❑ **For or on behalf** of distinct persons referred to in section 25,
- ❑ Liable to distribute the input tax credit in respect of such invoices in the manner provided in section 20;

ISD Invoice and Credit / Debit Notes

- ▶ **Rule 39:** *For the distribution of credit in respect of input services, **attributable to one or more distinct persons**, subject to levy of tax under sub-section (3) or (4) of section 9, a registered person, having the **same PAN and State code** as an Input Service Distributor, may issue an **invoice** or, as the case may be, a **credit or debit note** as per the provisions of sub-rule (1A) of rule 54 **to transfer the credit** of such **common input services** to the Input Service Distributor, and such credit shall be distributed by the said Input Service Distributor in the manner as provided in **ISD invoices must clearly state ITC distribution***
- ▶ **Credit Note:** *Used for ITC reduction*
- ▶ **Debit Note:** *Used for additional ITC*
- ▶ *For Credit / Debit Notes : ITC should be apportioned in the same ratio as done for the original invoice*

What to and What not to distribute?



Allowed ITC:



*GST charged
under Forward
Charge and GST
paid under RCM*



Not Allowed:
*Input goods &
capital goods,
Cess (Section 20)*

Distribution Rules - Section 20(2)

- **Exclusive ITC:** To respective unit only
- **Multiple Recipients:** Pro-rata based on turnover during the relevant Period
- Formula: $C1 = (t1/T) \times C$
(C1 – ITC Distributed; t1- Turnover of the respective unit; T – Total turnover of all recipients to whom the ITC is distributed)
- Relevant Period: Preceding Financial Year or Last Available Quarter

Tax Component Distribution

FOR CGST / SGST Component:

- ▶ **Same State:** CGST & SGST/UTGST
- ▶ **Different State:** As IGST

IGST Component:

- ▶ Distributed as IGST

Key Deadlines & Time Limits – Rule 39

*ITC must be
distributed
within the
same month*

*No quarterly,
half-yearly,
or annual
distribution
allowed*

Consequences of Non-Compliance

- **Section 21:** *ISD distributes the credit in contravention of section 20 – Excess credit shall be recovered along with Interest and Provisions of section 73,74 shall apply.*
- *Reference to Circular 71/45/2018-GST*
- **Penalty :**
 - ❖ *Section 122 (₹10,000 or equivalent ITC)*



Services Covered - ISD & Cross Charge

- **Externally Generated Services:** ISD
- **Internally Generated Services:** Cross Charge (ISD not applicable)
- **What is Cross Charge?**
- A **cross charge** refers to the internal allocation of costs for services provided by one unit of an organization to another unit within the same legal entity but operating under different GST registrations (distinct persons).

Differences b/w ISD & Cross Charge

1. Externally Procured vs Internally Generated Services:

1. **ISD:** Distributes ITC only for externally procured input services.
2. **Cross Charge:** Used for internally generated services (e.g., HR, IT, admin services provided by the head office to branch offices).

2. Applicability of GST:

1. **ISD:** No GST liability, only ITC distribution.
2. **Cross Charge:** GST is applicable on taxable services provided between distinct GST-registered units.

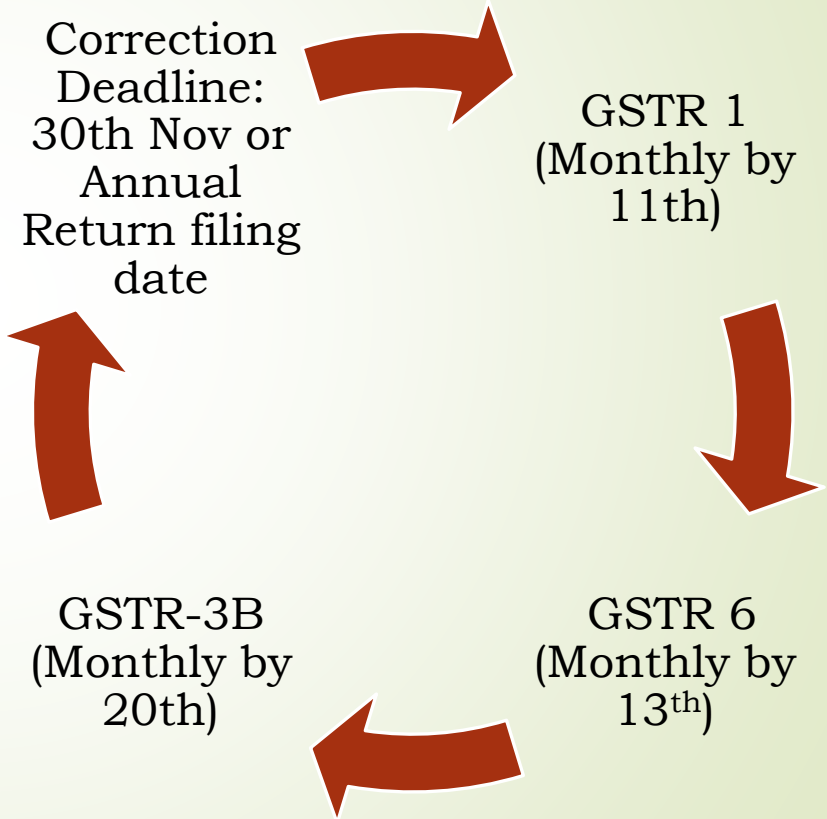
3. Taxability:

1. **ISD:** Merely distributes credit; does not involve service supply.
2. **Cross Charge:** Considered as a supply of services under GST and attracts tax.

4. Invoice Issuance:

1. **ISD:** Uses ISD invoices specifically for ITC distribution.
2. **Cross Charge:** Issues tax invoices charging applicable GST.

ISD Returns & Compliance





Compliance Strategy & Challenges for Businesses

❖ **Compliance Strategy:**

- Analyze ISD applicability
- Register as ISD if required
- Implement ITC distribution framework
- File ISD returns timely

❖ **Challenges:**

- ITC misallocation risks
- Compliance burden
- IT system readiness
- Handling inter-state credit distribution

THANK
YOU!!

