

# INPUT SERVICE DISTRIBUTOR

**Indirect Tax - GST**

**FINANCE**



**AGMS & CO**  
Chartered Accountants  
ADVISORY | COMPLIANCE | LITIGATION

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# DO YOU KNOW ISD IS BECOMING MANDATORY FROM 01<sup>ST</sup> APRIL 2025 ?

IF YES THAN:

1. CHECK THE **APPLICABILITY OF ISD REGISTRATION.**
2. BE READY FOR FILING OF MONTHLY ISD RETURN GSTR 6 – ON OR BEFORE 13<sup>TH</sup> DAY OF SUBSEQUENT MONTH. |
3. **HOW ISD WILL DISCHARGE LIABILITY UNDER RCM AND DISTRIBUTE THE CREDIT.**
4. **BE READY FOR NEW SHOW CAUSE NOTICE ON FOLLOWINGS:**
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# DEFINITION

## Amendment of section 2(61) – “ Input Service Distributor ”. Clause 116 of Finance Bill, 2025

Earlier	Amendment	Impact
<i>“Input Service Distributor” 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, and liable to distribute the input tax credit in respect of such invoices in the manner provided in section 20;]</i>	<i>“Input Service Distributor” 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 <b>of this Act or under subsection (3) or sub-section (4) of section 5 of the Integrated Goods and Services Tax Act, 2017</b>” for or on behalf of distinct persons referred to in section 25, and liable to distribute the input tax credit in respect of such invoices in the manner provided in section 20;]</i>	<ol style="list-style-type: none"><li>1. Clause (61) of section 2 of the Central Goods and Services Tax Act is being amended to explicitly provide for distribution of input tax credit by the Input Service Distributor in respect of inter-state supplies on which tax has to be paid on reverse charge basis, by inserting reference to sub-section (3) and sub-section (4) of section 5 of Integrated Goods and Services Tax Act.</li><li>2. This amendment will be effective from 1st April 2025.</li></ol>

Note: As per notification no 16/2024 Central Tax dated 06<sup>th</sup> August 2024 the provisions of section 2(61) and Section 20 will be effective from 01.04.2025.

# **WHO IS INPUT SERVICE DISTRIBUTOR ?**

- INPUT SERVICE DISTRIBUTOR MEANS:
- AN OFFICE OF THE SUPPLIER OF GOODS OR SERVICES OR BOTH
- **WHICH RECEIVES TAX INVOICES**
- TOWARDS THE RECEIPT OF INPUT SERVICES (INCLUDING INTER STATE AND INTRA STATE RCM)
- “**FOR OR ON BEHALF** OF **DISTINCT PERSON** REFERRED IN SECTION 25 AND
- LIABLE TO DISTRIBUTE THE INPUT TAX CREDIT IN RESEPECT OF SUCH INVOICES IN MANNER PROVIDED IN SECTION 20”

# **DISTINCT PERSON**

25(4) A person who has obtained or is required to obtain more than one registration, whether in one State or Union territory or more than one State or Union territory shall, in respect of each such registration, be treated as distinct persons for the purposes of this Act.

25(5) Where a person who has obtained or is required to obtain registration in a State or Union territory in respect of an establishment, has an establishment in another State or Union territory, then such establishments shall be treated as establishments of distinct persons for the purposes of this Act.



# **COMPLUSORY REGISTRATION**

## **Section 24(viii) of CGST Act 2017: Compulsory registration in certain case**

Input Service Distributor, whether or not separately registered under this Act;



**Manner of distribution of credit by the ISD.**

## Amendment of section 20(1) – “Manner of distribution of credit by Input Service Distributor.” Clause 120 of Finance Bill, 2025

Amendment	Amended Section	Impact
(i) in sub-section (1), after the word and figure “section 9”, the words, brackets and figures “of this Act or under subsection (3) or subsection (4) of section 5 of the Integrated Goods and Services Tax Act, 2017” shall be inserted;	<p><i>20 (1) Any 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 of this Act or under subsection (3) or subsection (4) of section 5 of the Integrated Goods and Services Tax Act, 2017, for or on behalf of distinct persons referred to in section 25, shall be required to be registered as Input Service Distributor under clause (viii) of section 24 and <u>shall distribute the input tax credit in respect of such invoices.</u></i></p>	<p><b>1. Effective from 01.04.2025.</b></p> <p>Shall be required:</p> <p><b>(a) <u>ISD Registration</u> :</b> To be registered as Input Service Distributor under clause (viii) of section 24 and</p> <p><b>(b) <u>Distribution</u>:</b> Distribute the input tax credit in respect of such Invoices.</p>

Note: As per notification no 16/2024 Central Tax dated 06<sup>th</sup> August 2024 the provisions of section 2(61) and Section 20 will be effective from 01.04.2025.

## Amendment of Section 20(2) – “Manner of distribution of credit by Input Service Distributor.” Clause 120 of Finance Bill, 2025

Amendment	Amended Section	Impact
(ii) in sub-section (2), after the word and figure “section 9”, the words, brackets and figures “of this Act or under subsection (3) or sub-section (4) of section 5 of the Integrated Goods and Services Tax Act, 2017,” shall be inserted.	20(2) The Input Service Distributor shall distribute the credit of central tax or integrated tax charged on invoices received by him, including the credit of central or integrated tax in respect of services subject to levy of tax under sub-section (3) or sub-section (4) of section 9 <b>of this Act or under subsection (3) or sub-section (4) of section 5 of the Integrated Goods and Services Tax Act, 2017,</b> paid by a distinct person registered in the same State as the said Input Service Distributor, in such manner, within such time and subject to such restrictions and conditions as may be prescribed.	<ol style="list-style-type: none"> <li><b>Effective from 01.04.2025</b></li> <li>Section 20(1) and Section 20(2) are being amended to explicitly provide for distribution of input tax credit by the Input Service Distributor in respect of inter-state supplies, on which tax has to be paid on reverse charge basis, by inserting reference to sub-section (3) and sub-section (4) of section 5 of Integrated Goods and Services Tax Act in said sub-sections of section 20 of Central Goods and Services Tax Act. The amendment will be effective from 1st April 2025.</li> </ol>

## **Amendment of Section 20(3) – “Manner of distribution of credit by Input Service Distributor.”**

### **Distribution by way of issue of a document.**

(3) The credit of central tax shall be distributed as central tax or integrated tax and integrated tax as integrated tax or central tax, by way of issue of a document containing the amount of input tax credit, in such manner as may be prescribed.

# KEY FEATURES OF DISTRIBUTION OF INPUT TAX CREDIT BY ISD – RULE 39 CGST RULES 2017.

39(1) An Input Service Distributor shall distribute input tax credit in the manner and subject to the following conditions, namely,—

- (a) the input tax credit available for distribution in a month shall be distributed in the same month and the details thereof shall be furnished in FORM GSTR-6 in accordance with the provisions of Chapter VIII of these rules;
- (b) the amount of the credit distributed shall not exceed the amount of credit available for distribution;
- (c) the credit of tax paid on input services attributable to a recipient of credit shall be distributed only to that recipient;
- (d) the credit of tax paid on input services attributable to more than one recipient of credit shall be distributed amongst such recipients to whom the input service is attributable and such distribution shall be pro rata on the basis of the turnover in a State or turnover in a Union territory of such recipient, during the relevant period, to the aggregate of the turnover of all such recipients to whom such input service is attributable and which are operational in the current year, during the said relevant period;

# KEY FEATURES OF DISTRIBUTION OF INPUT TAX CREDIT BY ISD – RULE 39 CGST RULES 2017.

39(1) An Input Service Distributor shall distribute input tax credit in the manner and subject to the following conditions, namely,—

(e) the credit of tax paid on input services **attributable to all recipients** of credit shall be distributed amongst such recipients and such **distribution shall be pro rata on the basis of the turnover** in a State or turnover in a Union territory of such recipient, during the relevant period, to the aggregate of the turnover of all recipients and which are operational in the current year, during the said relevant period;

(f) the input tax credit that is required **to be distributed** in accordance with the provisions of clauses (d) and (e) to one of the recipients "R1", **whether registered or not**, from amongst the total of all the recipients to whom input tax credit is attributable, including the recipients who are engaged in making exempt supply, or are otherwise not registered for any reason, shall be the amount, "C1", **to be calculated by applying the following formula –**

$$C_1 = (t_1/T) \times C \text{ where,}$$

"C" is the amount of credit to be distributed,

"t<sub>1</sub>" is the turnover, as referred to in clauses (d) and (e), of person R<sub>1</sub> during the relevant period, and

"T" is the aggregate of the turnover, during the relevant period, of all recipients to whom the input service is attributable in accordance with the provisions of clauses (d) and (e);

# KEY FEATURES OF DISTRIBUTION OF INPUT TAX CREDIT BY ISD – RULE 39 CGST RULES 2017.

39(1) An Input Service Distributor shall distribute input tax credit in the manner and subject to the following conditions, namely,—

(g) the Input Service Distributor shall, in accordance with the provisions of clauses (d) and (e), separately distribute the amount of ineligible input tax credit (ineligible under the provisions of sub-section (5) of section 17 or otherwise) and the amount of eligible input tax credit;

(h) the input tax credit on account of central tax, State tax, Union territory tax and integrated tax shall be distributed separately in accordance with the provisions of clauses (d) and (e).

(i) the input tax credit on account of integrated tax shall be distributed as input tax credit of integrated tax to every recipient;

(j) the input tax credit on account of central tax and State tax or Union territory tax shall-

(i) in respect of a recipient located in the same State or Union territory in which the Input Service Distributor is located, be distributed as input tax credit of central tax and State tax or Union territory tax respectively;

(ii) in respect of a recipient located in a State or Union territory other than that of the Input Service Distributor, be distributed as integrated tax and the amount to be so distributed shall be equal to the aggregate of the amount of input tax credit of central tax and State tax or Union territory tax that qualifies for distribution to such recipient as referred to in clauses (d) and (e);



# KEY FEATURES OF DISTRIBUTION OF INPUT TAX CREDIT BY ISD – RULE 39 CGST RULES 2017.

**39(1)** An Input Service Distributor shall distribute input tax credit in the manner and subject to the following conditions, namely,—

- (k) the Input Service Distributor **shall issue an Input Service Distributor invoice**, as provided in sub-rule (1) of rule 54, clearly indicating in such invoice that it is issued only for distribution of input tax credit;
- (l) the Input Service Distributor shall issue an Input Service Distributor credit note, as provided in sub-rule (1) of rule 54, for reduction of credit in case the input tax credit already distributed gets reduced for any reason;
- (m) any additional amount of input tax credit on account of **issuance of a debit note** to an Input Service Distributor by the supplier shall be distributed in the manner and subject to the conditions specified in clauses (a) to (j) and the amount attributable to any recipient shall be calculated in the manner provided in clause (f) and such credit shall be distributed in the month in which the debit note is included in the return in FORM GSTR-6;

# KEY FEATURES OF DISTRIBUTION OF INPUT TAX CREDIT BY ISD – RULE 39 CGST RULES 2017.

**39(1)** An Input Service Distributor shall distribute input tax credit in the manner and subject to the following conditions, namely,—

- (n) any input tax credit required to be reduced on account of issuance of a credit note to the Input Service Distributor by the supplier shall be apportioned to each recipient in the same ratio in which the input tax credit contained in the original invoice was distributed in terms of clause (f), and the amount so apportioned shall be—
  - (i) reduced from the amount to be distributed in the month in which the credit note is included in the return in FORM GSTR-6; or
  - (ii) added to the output tax liability of the recipient where the amount so apportioned is in the negative by virtue of the amount of credit under distribution being less than the amount to be adjusted.

# KEY FEATURES OF DISTRIBUTION OF INPUT TAX CREDIT BY ISD – RULE 39 CGST RULES 2017.

**39(1)** An Input Service Distributor shall distribute input tax credit in the manner and subject to the following conditions, namely,—

## RCM credit distribution

*(1A) 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 sub-rule (1).***

## KEY FEATURES OF DISTRIBUTION OF INPUT TAX CREDIT BY ISD – RULE 39 CGST RULES 2017.

### Reduction in credit for any reason including distribution to wrong GSTIN.

*39(2) If the amount of input tax credit distributed by an Input Service Distributor is reduced later on for any other reason for any of the recipients, including that it was distributed to a wrong recipient by the Input Service Distributor, the process specified in clause (n) of sub-rule (1) shall apply, mutatis mutandis, for reduction of credit.*

*39(3) Subject to sub-rule (2), the Input Service Distributor shall, on the basis of the Input Service Distributor credit note specified in clause (l) of sub-rule (1), issue an Input Service Distributor invoice to the recipient entitled to such credit and include the Input Service Distributor credit note and the Input Service Distributor invoice in the return in FORM GSTR-6 for the month in which such credit note and invoice was issued.*

# KEY FEATURES OF DISTRIBUTION OF INPUT TAX CREDIT BY ISD – RULE 39 CGST RULES 2017.

Explanation. — For the purpose of this rule, -

- (i) the term "**relevant period**" shall be
  - (a) if the recipients of credit have **turnover** in their States or Union territories **in the financial year preceding the year** during which credit is to be distributed, the said financial year; or
  - (b) if some or all recipients of the credit do not have any turnover in their States or Union territories in the financial year preceding the year during which the credit is to be distributed, **the last quarter for which details of such turnover of all the recipients are available, previous to the month during** which credit is to be distributed;
- (ii) the expression "**recipient of credit**" means the supplier of goods or services or both having the same Permanent Account Number as that of the Input Service Distributor;
- (iii) the term "**turnover**", in relation to any registered person engaged in the supply of taxable goods as well as goods not taxable under this Act, means the value of turnover, reduced by the amount of any duty or tax levied under entries 84 and 92A of List I of the Seventh Schedule to the Constitution and entries 51 and 54 of List II of the said Schedule.

# **Tax invoice, Debit Note and Credit Note in ISD.**

## Invoice or Credit note or Debit Note Issued by an ISD Shall Contain

54. (1) An Input Service Distributor invoice or, as the case may be, an Input Service Distributor credit note **issued by an Input Service Distributor** shall contain the following details:—

- (a) name, address and Goods and Services Tax Identification Number of the Input Service Distributor;
- (b) a consecutive serial number not exceeding sixteen characters, in one or multiple series, containing alphabets or numerals or special characters-hyphen or dash and slash symbolised as- "-", "/", respectively, and any combination thereof, unique for a financial year;
- (c) date of its issue;
- (d) name, address and Goods and Services Tax Identification Number of the recipient to whom the credit is distributed;
- (e) amount of the credit distributed;** and
- (f) signature or digital signature of the Input Service Distributor or his authorised representative:

Provided that where the Input Service Distributor is an office of a banking company or a financial institution, including a non-banking financial company, a tax invoice shall include any document in lieu thereof, by whatever name called, whether or not serially numbered but containing the information as mentioned above.



# Invoice or Credit note or Debit Note Issued by Registered person to ISD Shall Contain

54 [(1A)(a) **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 to **transfer the credit of common input services to the Input Service Distributor**, which shall contain the following details:—

- (i) name, address and Goods and Services Tax Identification Number of the registered person having the same PAN and same State code as the Input Service Distributor;
- (ii) a consecutive serial number not exceeding sixteen characters, in one or multiple series, containing alphabets or numerals or special characters - hyphen or dash and slash symbolised as "-" and "/" respectively, and any combination thereof, unique for a financial year;
- (iii) date of its issue;
- (iv) **Goods and Services Tax Identification Number of supplier of common service and original invoice number whose credit is sought to be transferred to the Input Service Distributor;**
- (v) name, address and Goods and Services Tax Identification Number of the Input Service Distributor;
- (vi) **taxable value, rate and amount of the credit to be transferred;** and
- (vii) Signature or digital signature of the registered person or his authorised representative.

**(b) The taxable value in the invoice issued under clause (a) shall be the same as the value of the common services.]**

# **FURNISHING OF ISD RETURN ALONG WITH FORM AND MANNER.**

## **Section 39- Furnishing of returns**

39(4) Every taxable person registered as an Input Service Distributor shall, for every calendar month or part thereof, furnish, in such form and manner as may be prescribed, a return, electronically, **within thirteen days after the end of such month.**

(9) Where any registered person after furnishing a return under sub-section (1) or sub-section (2) or sub-section (3) or **sub-section (4)** or sub-section (5) discovers any omission or incorrect particulars therein, other than as a result of scrutiny, audit, inspection or enforcement activity by the tax authorities, he shall rectify such omission or incorrect particulars in such form and manner as may be prescribed, subject to payment of interest under this Act:

Provided that **no such rectification of any omission or incorrect particulars shall be allowed after the thirtieth day of November following the end of the financial year to which such details pertain, or the actual date of furnishing of relevant annual return, whichever is earlier.**

(10) A registered person shall **not be allowed to furnish a return for a tax period** if the return for any of **the previous tax periods or the details of outward supplies** under sub-section (1) of section 37 **for the said tax period has not been furnished by him:**

Provided that the Government may, on the recommendations of the Council, by notification, subject to such conditions and restrictions as may be specified therein, allow a registered person or a class of registered persons to furnish the return, even if he has not furnished the returns for one or more previous tax periods or has not furnished the details of outward supplies under sub-section (1) of section 37 for the said tax period.

(11) **A registered person shall not be allowed to furnish a return for a tax period after the expiry of a period of three years from the due date of furnishing the said return:** Provided that the Government may, on the recommendations of the Council, by notification, subject to such conditions and restrictions as may be specified therein, allow a registered person or a class of registered persons to furnish the return for a tax period, even after the expiry of the said period of three years from the due date of furnishing the said return.

# **Rule 65 of CGST Rules, 2017: Form and manner of submission of return by an Input Service Distributor**

Every Input Service Distributor shall, on the basis of details contained in FORM GSTR-6A, and where required, after adding, correcting or deleting the details, furnish electronically the return in FORM GSTR-6, containing the details of tax invoices on which credit has been received and those issued under section 20, through the common portal either directly or from a Facilitation Centre notified by the Commissioner.

**Form GSTR-6**

[See rule 65]

**Return for input service distributor**

Year				
Month				

1.	GSTIN																		
2.	(a)	Legal name of the registered person																	
	(b)	Trade name, if any																	

**3. Input tax credit received for distribution**

GSTIN of supplier	Invoice details			Rate	Taxable value	Amount of Tax			
	No	Date	Value			Integrated tax	Central Tax	State / UT Tax	CESS
1	2	3	4	5	6	7	8	9	10

**(Amount in Rs. for all Tables)****4. Total ITC/Eligible ITC/Ineligible ITC to be distributed for tax period (From Table No. 3)**

Description	Integrated tax	Central Tax	State / UT Tax	CESS
1	2	3	4	5
(a) Total ITC available for distribution				
(b) Amount of eligible ITC				
(c) Amount of ineligible ITC				

**5. Distribution of input tax credit reported in Table 4**

GSTIN of recipient/State, if recipient is unregistered	ISD invoice		Distribution of ITC by ISD			
	No.	Date	Integrated Tax	Central Tax	State / UT Tax	CESS
1	2	3	4	5	6	7
5A. Distribution of the amount of eligible ITC						
5B. Distribution of the amount of ineligible ITC						

**6. Amendments in information furnished in earlier returns in Table No. 3**

Original details			Revised details									
GSTIN of supplier	No.	Date	GSTIN of supplier	Invoice/debit note/credit note details			Rate	Taxable value	Amount of Tax			
				No	Date	Value			Integrated tax	Central Tax	State / UT Tax	CESS
1	2	3	4	5	6	7	8	9	10	11	12	13
6A. Information furnished in Table 3 in an earlier period was incorrect												
6B. Debit Notes/Credit Notes received [Original]												
6C. Debit Notes/Credit Notes [Amendments]												

**7. Input tax credit mis-matches and reclaims to be distributed in the tax period**

Description	Integrated tax	Central Tax	State/ UT Tax	Cess
1	2	3	4	5
7A. Input tax credit mismatch				
7B. Input tax credit reclaimed on rectification of mismatch				

**8. Distribution of input tax credit reported in Table No. 6 and 7 (plus / minus)**

GSTIN of recipient	ISD credit no.		ISD invoice		Input tax distribution by ISD			
	No.	Date	No.	Date	Integrated Tax	Central Tax	State Tax	CESS
1	2	3	4	5	6	7	8	9
8A. Distribution of the amount of eligible ITC								
8B. Distribution of the amount of ineligible ITC								

**9. Redistribution of ITC distributed to a wrong recipient (plus / minus)**

Original input tax credit distribution	Re-distribution of input tax credit to the correct recipient
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GSTIN of original recipient	ISD invoice detail		ISD credit note		GSTIN of new recipient	ISD invoice		Input tax credit redistributed			
	No.	Date	No	Date		No.	Date	Integrated Tax	Central Tax	State Tax	CESS
1	2	3	4	5	6	7	8	9	10	11	12
9A. Distribution of the amount of eligible ITC											
9B. Distribution of the amount of ineligible ITC											

#### 10. Late Fee

On account of	Central Tax	State / UT tax	Debit Entry No.
1	2	3	4
Late fee			

#### 11. Refund claimed from electronic cash ledger

Description	Fee	Other	Debit Entry Nos.
1	2	3	4
(a) Central Tax			
(b) State/UT Tax			
Bank Account Details (Drop Down)			

#### Verification

I hereby solemnly affirm and declare that the information given herein above is true and correct to the best of my knowledge and belief and nothing has been concealed therefrom.

Signature of Authorised Signatory

Place

Name of Authorised Signatory

Date

Designation /Status



**Instructions:-**

1. Terms Used :-
  - a. GSTIN :- Goods and Services Tax Identification Number
  - b. ISD :- Input Service Distributor
  - c. ITC: - Input tax Credit.
2. GSTR-6 can only be filed only after 10<sup>th</sup> of the month and before 13<sup>th</sup> of the month succeeding the tax period.
3. ISD details will flow to Part B of GSTR-2A of the Registered Recipients Units on filing of GSTR-6.
4. ISD will not have any reverse charge supplies. If ISD wants to take reverse charge supplies, then in that case ISD has to separately register as Normal taxpayer.
5. ISD will have late fee and any other liability only.
6. ISD has to distribute both eligible and ineligible ITC to its Units in the same tax period in which the inward supplies have been received.
7. Ineligible ITC will be in respect of supplies made as per Section 17(5).
8. Mismatch liability between GSTR-1 and GSTR-6 will be added to ISD and further ISD taxpayer has to issue ISD credit note to reduce the ITC distributed earlier to its registered recipients units.
9. Table 7 in respect of mismatch liability will be populated by the system.
10. Refund claimed from cash ledger through Table 11 will result in a debit entry in electronic cash ledger.

# Section – 21 - Manner of recovery of credit distributed in excess.

Where the Input Service Distributor distributes the credit in contravention of the provisions contained in [section 20](#) resulting in excess distribution of credit to one or more recipients of credit, the excess credit so distributed shall be recovered from such recipients along with interest, and the provisions of [section 73](#) or [section 74](#) or *section 74A*, as the case may be, shall, *mutatis mutandis*, apply for determination of amount to be recovered.

# **Section – 122(ix) - Penalty for certain offences**

**Penalty = Rs.10,000 or Input Tax Credit Availed of or passed or distributed whichever is higher.**

Where a taxable person who takes or distributes input tax credit in contravention of section 20, or the rules made thereunder shall be liable to pay a penalty of ten thousand rupees or an amount equivalent to the tax evaded or the tax not deducted under section 51 or short deducted or deducted but not paid to the Government or tax not collected under section 52 or short collected or collected but not paid to the Government or input tax credit availed of or passed on or distributed irregularly, or the refund claimed fraudulently, whichever is higher.

# APPLICABILITY OF ISD REGISTRATION

**ANY OFFICE OF THE SUPPLIER OF GOODS OR SERVICES OR BOTH**

**RECIEVES TAX INVOICES TOWARDS SERVICES (INCLUDING RCM) + FOR OR BEHALF DISTINCT PERSON ON = SHALL REQUIRED TO BE REGISTERED AS ISD (SECTION 24(VIII)) + SHALL DISTRIBUTE THE ITC IN RESPECT OF SUCH INVOICE**

## MANNER OF DISTRIBUTION OF CREDIT BY INPUT SERVICE DISTRIBUTOR

*Section 20 (1) Any 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 of this Act or under subsection (3) or sub-section (4) of section 5 of the Integrated Goods and Services Tax Act, 2017, for or on behalf of distinct persons referred to in section 25, shall be required to be registered as Input Service Distributor under clause (viii) of section 24 and shall distribute the input tax credit in respect of such invoices.*

**CROSS CHARGE.**

**(INTERNALLY GENERATED  
SERVICES)**

**INPUT SERVICE  
DISTRIBUTOR  
(ISD)**

# **Background for ISD**

**17<sup>th</sup> July 2023 - Circular No. 199/11/2023-GST was issued for Clarification regarding taxability of services provided by an office of an organisation in one State to the office of that organisation in another State, both being distinct persons.**

**7<sup>th</sup> October 2023 – 52<sup>nd</sup> Meeting of the Council made the following recommendations for ISD:**

## **LAW AMENDMENT WITH RESPECT TO ISD AS RECOMMENDED BY THE GST COUNCIL IN ITS 50<sup>TH</sup> MEETING:**

*GST Council in its 50<sup>th</sup> meeting had recommended that ISD (Input Service Distributor) procedure as laid down in Section 20 of the CGST Act, 2017 may be made mandatory prospectively for distribution of ITC in respect of input services procured by Head Office (HO) from a third party but attributable to both HO and Branch Office (BO) or exclusively to one or more BOs. The Council has now recommended amendments in Section 2(61) and section 20 of CGST Act, 2017 as well amendment in rule 39 of CGST Rules, 2017 in respect of the same.*

**ITC in respect of following common services:**

**ISD or Cross Charge?**

Audit Fee

Bank  
Services

Software  
Services

Advertising  
Services

Brand  
Royalty IPR  
services

Recruitment  
services etc.



**1.HOW TO DISTRIBUTE  
CREDIT OF COMMON INPUT  
SERVICES PROCURED From a  
third party but attributable to  
both HO and BOs or  
exclusively to one or more  
BOs?**

**1.OPTIONAL Till 31.03.2025.**

**2.(a) Distribute the ITC through cross  
charge.**

**3. or**

**4.(b) Distribute the ITC through ISD.**

**5.(c) ISD registration was optional.**

**6.(Refer Circular - No. 199/11/2023-GST  
dated 17<sup>th</sup> July 2023.)**

**1.MANDATORY w.e.f 01.04.2025**

**2.(A) SHALL REQUIRE ISD  
REGISTRATION AND**

**3.(B) SHALL DISTRIBUTE ITC USING  
ISD MECHANISM.**

**Note: As per notification no 16/2024 Central Tax dated 06<sup>th</sup> August 2024 the  
provisions of section 2(61) and Section 20 will be effective from 01.04.2025.**

## **CHALLENGE OF COST ALLOCATION**

### **CROSS CHARGE – FOR INTERNALLY GENERATED SERVICES-**

**The Cost of Salary of employees involved in providing the services.**

**Optional**

**(Refer Circular - No. 199/11/2023-GST dated 17<sup>th</sup> July 2023.)**

**Third party services not directly attributable to HO/BO?.**

**Services generated from common Assets?.**

**CROSS CHARGE -  
INTERNALLY GENERATED  
SERVICES.**

**Refer Circular - No.  
199/11/2023-GST dated  
17<sup>th</sup> July 2023**

**(a) Where HO is providing certain services to the BOs for which full input tax credit is available to the concerned Bos and vice versa.**

**INVOICE  
ISSUED.**

**The value  
declared on  
the invoice.**

**INVOICE NOT  
ISSUED.**

**Value be  
deemed to be  
declared as  
"NIL".**

**(b) Where HO is providing certain services to the BOs for which full input tax credit is **NOT** available to the concerned Bos and vice versa.**

**INVOICE ISSUED –  
Taxable value not  
mandatorily required  
to include the cost  
of salary of  
employees of HO.**

**INVOICE NOT ISSUED -  
No clarification has  
been provided just like  
the clarification  
provided in case the  
ITC is available then  
the value be deemed  
to be declared as Nil.**

## **HOW ISD WILL DISCHARGE LIABILITY UNDER RCM AND DISTRIBUTE THE COMMON INPUT TAX CREDIT.**

1. Normal registration (other than ISD ) will discharge the RCM liability.
2. After that it will take the Input tax credit.
3. Normal registered GSTIN will issue an invoice to ISD in respect of the above credit and report the same in its GSTR 1 so that the same would be transferred to ISD GSTIN.
4. Thereafter the ISD would distribute the credit of common input services as per the defined procedure.

**Note: ISD have to take separate normal registration in order to distribute the common input tax credit of RCM.**



**FOR MORE DETAILS ON**

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