



Input Service Distributor (ISD) Provisions in GST

Welcome to this comprehensive presentation on Input Service Distributor provisions under India's Goods and Services Tax regime. We'll explore how ISD mechanisms optimize tax credit distribution for multi-location businesses.

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Input Service Distributor Mechanism

ISD Definition

Section 2(61) of CGST Act amended.

Business Impact

Simplifies ITC distribution for shared services across branches.

Key Change

ISD can distribute ITC for inter-state reverse charge supplies.

Requirement

Must be under the same PAN.





What is GST?



July 20 17 Introduction

GST was introduced as a landmark reform in India's taxation structure.



Unified Tax System

It replaced multiple cascading taxes previously levied by central and state governments.



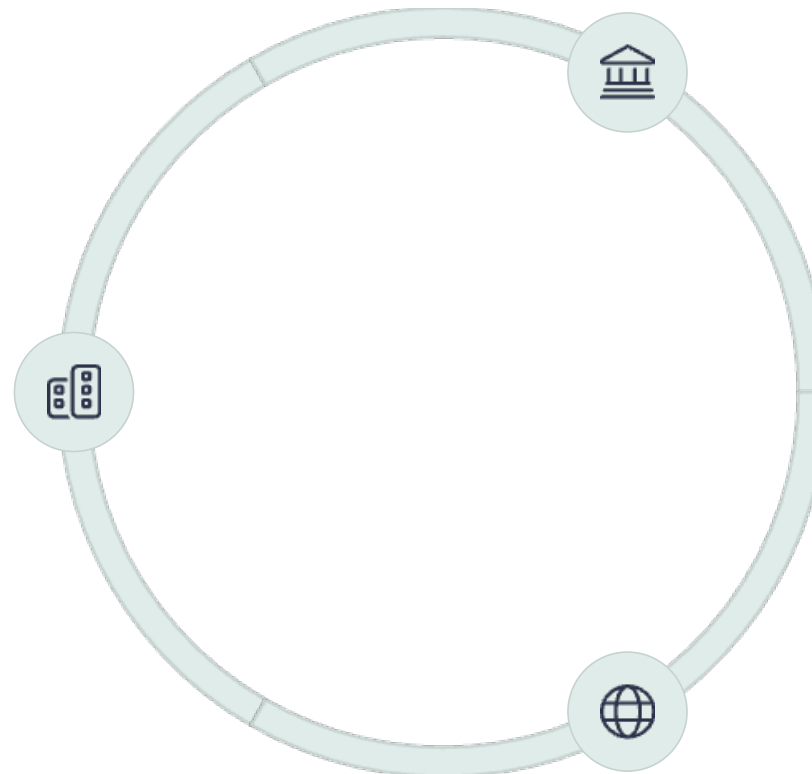
Nationwide Implementation

GST created a common national market with simplified tax structure.

Types of GST

CGST

Central GST collected by central government on intra -state transactions.



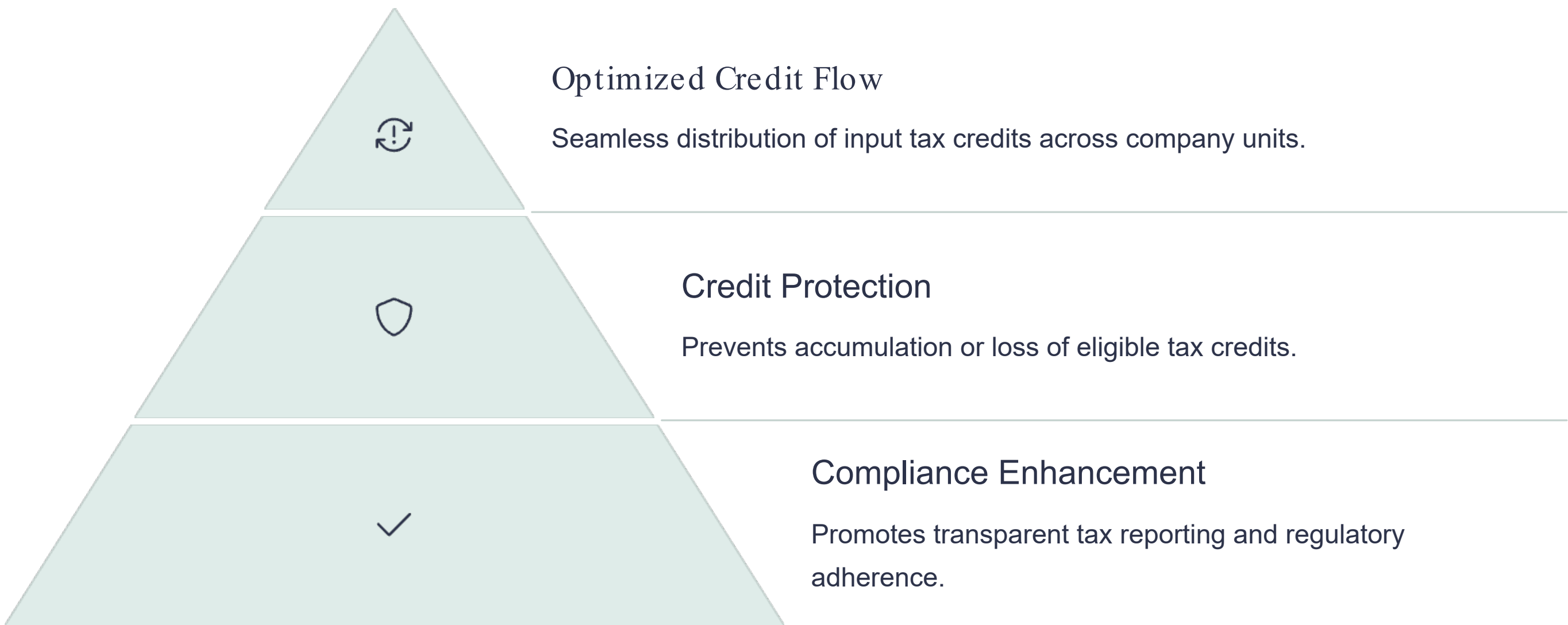
SGST/UTGST

State/Union Territory GST collected by state governments on intra -state supplies.

IGST

Integrated GST applicable on inter -state and import transactions.

Importance of ISD Provisions



GST Key Concepts Refresher



Input Tax Credit (ITC)

Tax paid on purchases that can be used to offset output tax liability. It's the backbone of GST's non-cascading structure.

Place of Supply

Determines which type of GST applies. Critical for deciding IGST vs CGST/SGST application.

GSTIN

Unique 15-digit Goods and Services Tax Identification Number issued to each registered entity.

Reverse Charge Mechanism

When recipient pays tax instead of supplier. Applies in specific scenarios prescribed by law.



Input Tax Credit (ITC) Overview



Legal Foundation

Defined under Section 2(62) of CGST Act as tax paid on supply of goods or services.



Credit Bridge

Creates financial connection between input tax paid and output tax liability.



Utilization Restrictions

Subject to specific conditions and utilization hierarchy mandated by law.

Challenges in Availing ITC



Geographic Dispersion

Organizations with branches across multiple states face fragmented GST registrations.



Centralized Services

HR, IT, security services often billed to HQ but utilized across locations.



Credit Distribution Complexity

Determining appropriate credit allocation ratios can be challenging.

Need for Input Service Distributor

Credit Flow Optimization

ISD mechanism allows rational distribution of input service credits. It prevents credit accumulation at central locations.

Without ISD, businesses face credit blockage and increased effective tax burden.

Operational Efficiency

Enables centralized procurement with distributed tax benefits. Creates administrative convenience for multi - location operations.

Eliminates need for suppliers to issue multiple invoices to each location.

What is an Input Service Distributor?



Legal Definition

Section 2(61) of CGST Act defines ISD as an office that receives tax invoices for input services.



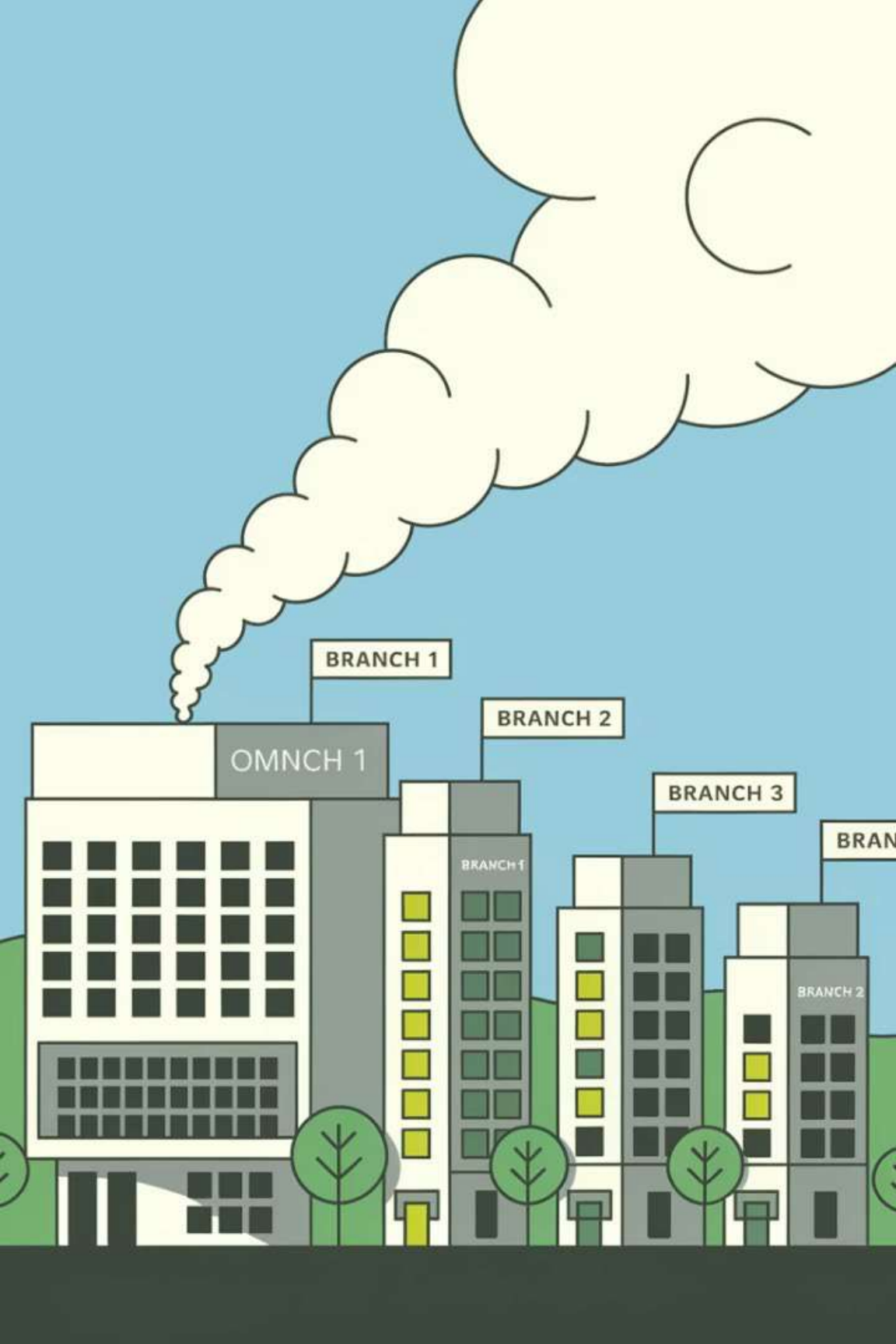
Invoice Receipt Hub

Functions as centralized point for receiving invoices for services used across units.



Credit Distributor

Allocates eligible input tax credit to various branches with separate GST registrations.



ISD: Key Characteristics



Services Only

Can distribute credit only for input services, not goods or capital assets.



GSTIN Specific

Distributes credit exclusively to units with separate GST registration numbers.



No Goods Credit

Cannot distribute credit directly for goods purchased, even if centrally procured.





ISD vs Regular Taxpayer

Parameter	ISD	Regular Taxpayer
Supply of Goods/Services	Not involved	Primary function
Output Tax Liability	None	Yes, on outward supplies
Tax Collection	Does not collect tax	Collects tax from customers
Primary Function	Credit distribution only	Business operations

Legal Framework Governing ISD

Definition Clause

Section 2(61) of CGST Act establishes what constitutes an ISD.



Procedural Rules

Rule 39 of CGST Rules 2017 provides detailed distribution procedures.



Operational Framework

Section 20 of CGST Act outlines the manner of ISD credit distribution.



Circulars & Notifications

CBIC regularly issues clarifications on ISD operations.





ISD Registration Requirement

24

Key Section

Section 24(viii) mandates compulsory registration for ISDs regardless of threshold.

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Separate Registration

Each ISD requires distinct registration even if business has regular GSTIN.

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Threshold Exemption

No turnover threshold applies for ISD registration requirement.

ISD Registration Process

Online Application

Submit application through GST portal using Form REG -01. Select "Input Service Distributor" in registration type.

Document Verification

Upload required documents. No physical verification is required for ISD registration.

GSTIN Allocation

Upon approval, a dedicated ISD GSTIN is allocated. Format includes "ISD" identifier.



Documents Required for ISD Registration



These essential documents establish business identity and authorization for GST registration.

Distinction: ISD vs CrossCharge Mechanism

ISD Mechanism

Purely distribution of input tax credit from common services. No supply between offices is involved.

Tax credit distributed through ISD invoice. Original service remains between vendor and ISD office.

Cross-Charge Mechanism

Involves actual supply of services between distinct entities. Creates taxable supply between branches.

Requires tax invoice for inter-branch billing. Results in actual GST payment by recipient branch.

Services Eligible for ISD Credit Distribution



Marketing & Advertising

Centralized advertising campaigns benefiting multiple locations.



IT & Technical Support

Software licenses, IT infrastructure, and technical consultancy services.



Human Resources

Recruitment, training, and HR management services utilized across branches.

Services NOT Eligible Through ISD



Goods Purchases

Raw materials, finished goods, and trading inventory cannot be routed through ISD.



Blocked Credits

Services restricted under Section 17(5) like food, beverages, and personal consumption.



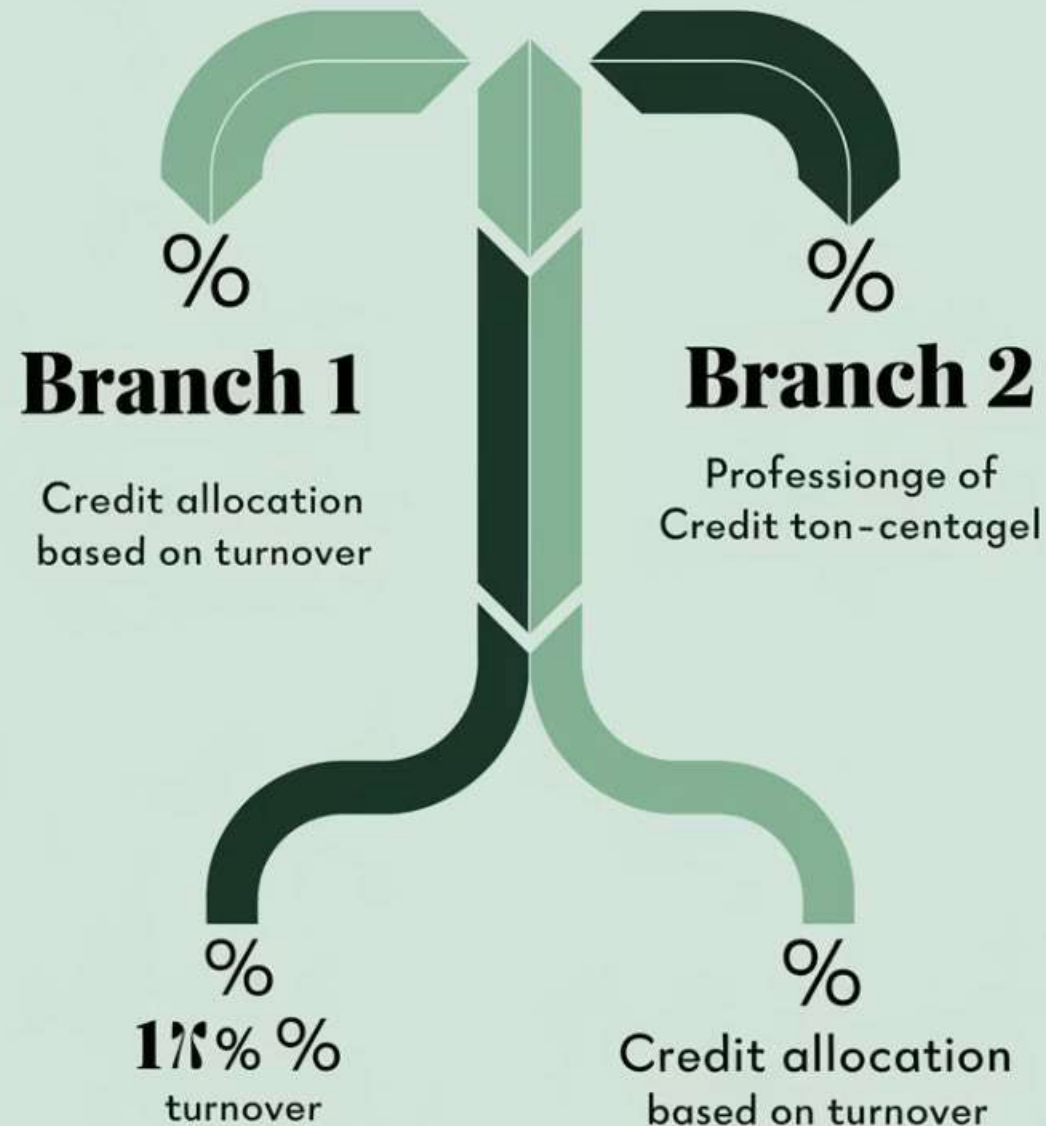
Capital Assets

Machinery, equipment, and capital goods credits cannot be distributed via ISD.

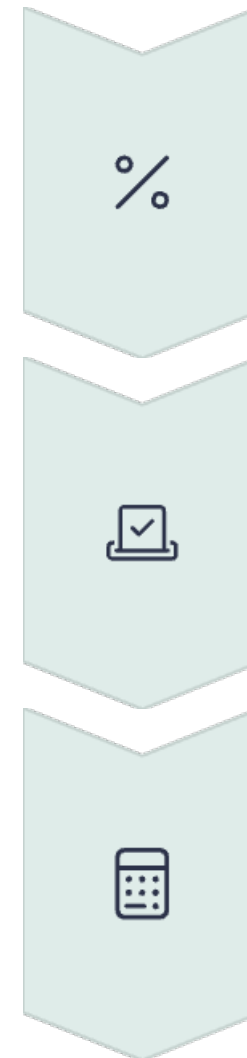


Ineligible items

Credit Allocation



ISD Credit Distribution Logic



Proportionate Allocation

Credit distributed based on turnover ratio or actual usage pattern.

Eligibility Verification

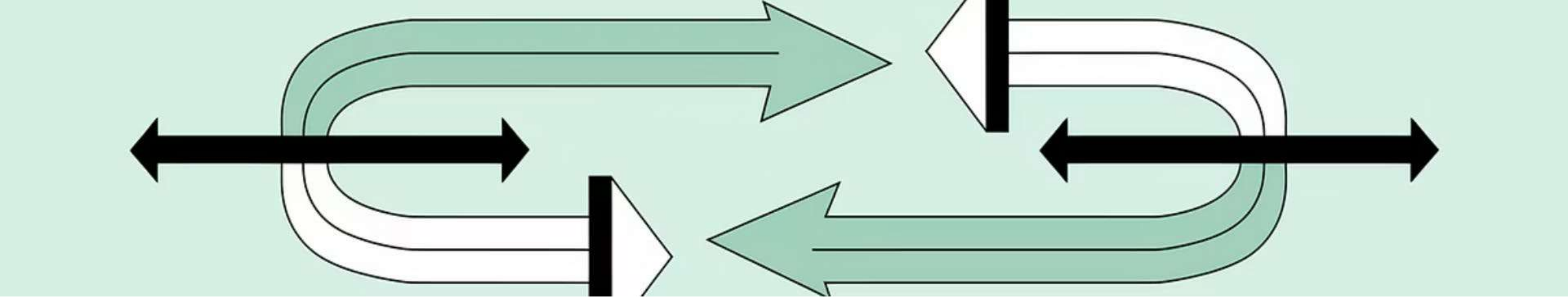
Credit passed only to units eligible to receive specific input service credit.

Period Calculation

Distribution typically based on previous financial year's turnover figures.

Methods for Distributing ISD Credit

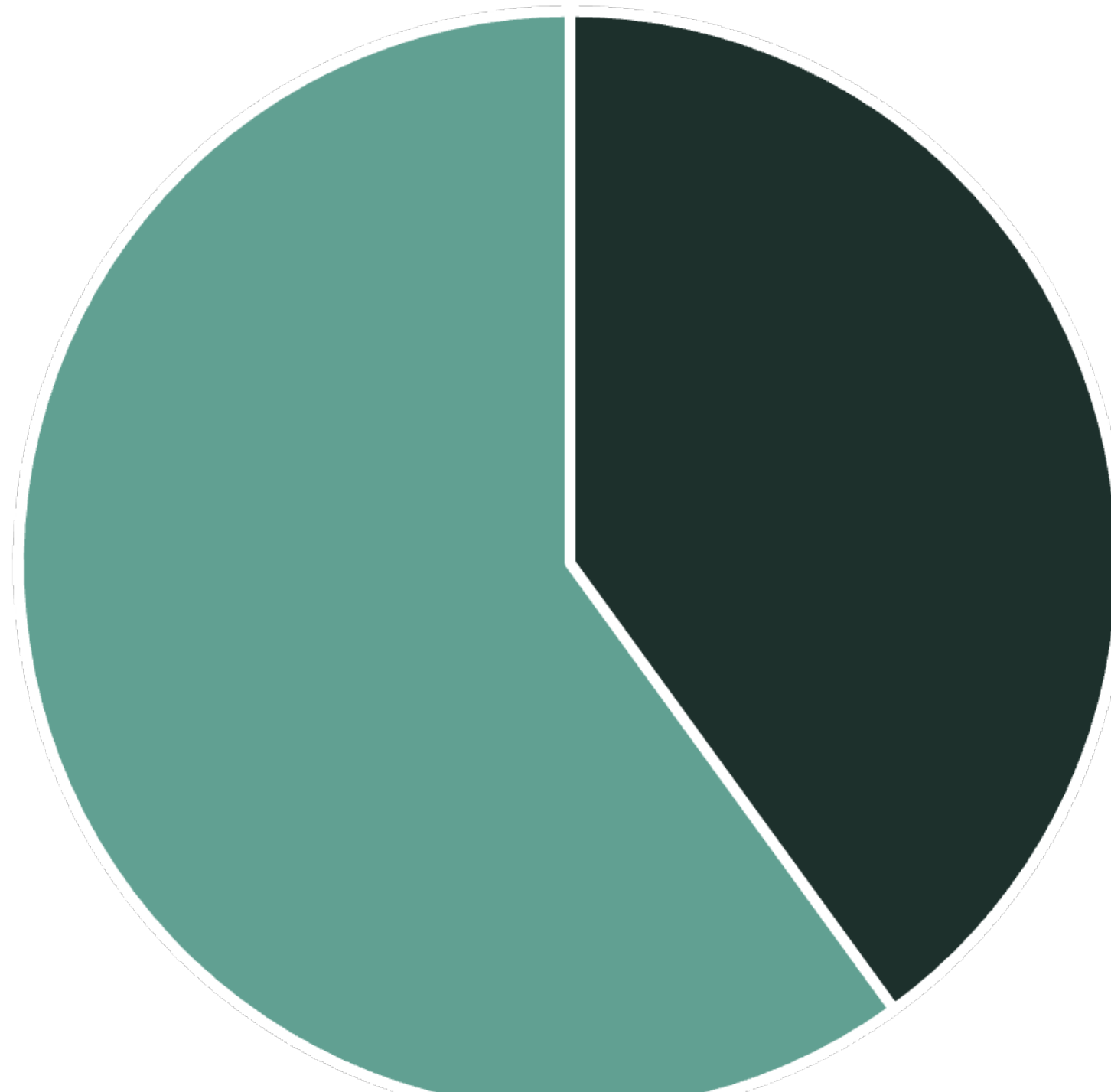




Distribution of Integrated, Central, and State Tax Credits

Credit Type	Same State Distribution	Different State Distribution
IGST	As IGST	As IGST
CGST	As CGST	As IGST
SGST/UTGST	As SGST/UTGST	As IGST

Example: ISD Credit Allocation





Transitional Provisions for ISD in GST

Pre-GST Credit Carryforward

Service Tax ISD credits could be carried forward to GST regime. This required Form GST TRAN-1 filing within specified timelines.

Pending Distribution Credits

Undistributed credits as of June 30, 2017 were eligible for transition. Only eligible credits under GST could be carried forward.

Documentary Requirements

Detailed records of pre -GST credits were mandatory. This included original invoices and distribution records.

Documents for Credit Distribution: ISD Invoice

Invoice Generation

ISD must issue an ISD invoice for each credit distribution transaction.

Compliance Requirements

Rule 54(1) mandates specific details be included in every ISD invoice.

Separate Documentation

Each recipient location requires a distinct ISD invoice document.



Format & Contents: ISD Invoice

1 Identification Elements

Serial number, date, and "ISD Invoice" marking are required.

2 Entity Information

Complete GSTIN, name, address of ISD and recipient unit.

3 Tax Details

Amount of credit distributed, tax type (CGST/SGST/IGST), and tax period.

4 Reference Information

Original supplier invoice details that is being distributed.

ISD Invoice

Birendra Inc. Logistics

706000, ISP	706000, ISP	706000, ISP
SAGE		PARTIAL

Date:

Product:

Corelaxen

Enakle

Yode Hdeq

Enudeinde

Indm ne he lute

Buy mde p

Recordkeeping by ISD

Inward Supply Records

Complete documentation of all input service invoices received. This includes supplier details, service description, and tax amounts.

Original invoices must be preserved for prescribed period (72 months). Electronic storage is permitted with proper authentication.

Distribution Records

Detailed logs of all credit distributions made to recipient units. This includes allocation basis, calculations, and ISD invoices issued.

Distribution registers must show recipient -wise credit allocation. Sequential numbering system for ISD invoices is mandatory.



Restriction on ISD Credit Utilization



No Self-Utilization

ISD cannot use ITC for its own output tax liability.



Distribution Only

Credit can only flow to eligible recipient units.



Credit-Neutral

ISD remains credit -neutral with zero utilization capability.

Return Filing by ISD: GST R6



Monthly Filing

Due by 13th of the following month without exception.



Contents

Details of all inward invoices and credit distribution transactions.



No Extensions

Late filing attracts penalties regardless of distribution activity.



Reconciliation of ISD Credits



GSTR- 6A Generation

Auto -populated from supplier GSTR -1 filings.



Credit Verification

ISD verifies against actual invoices received.



Matching Process

Reconciliation between GSTR -6A and distribution records.

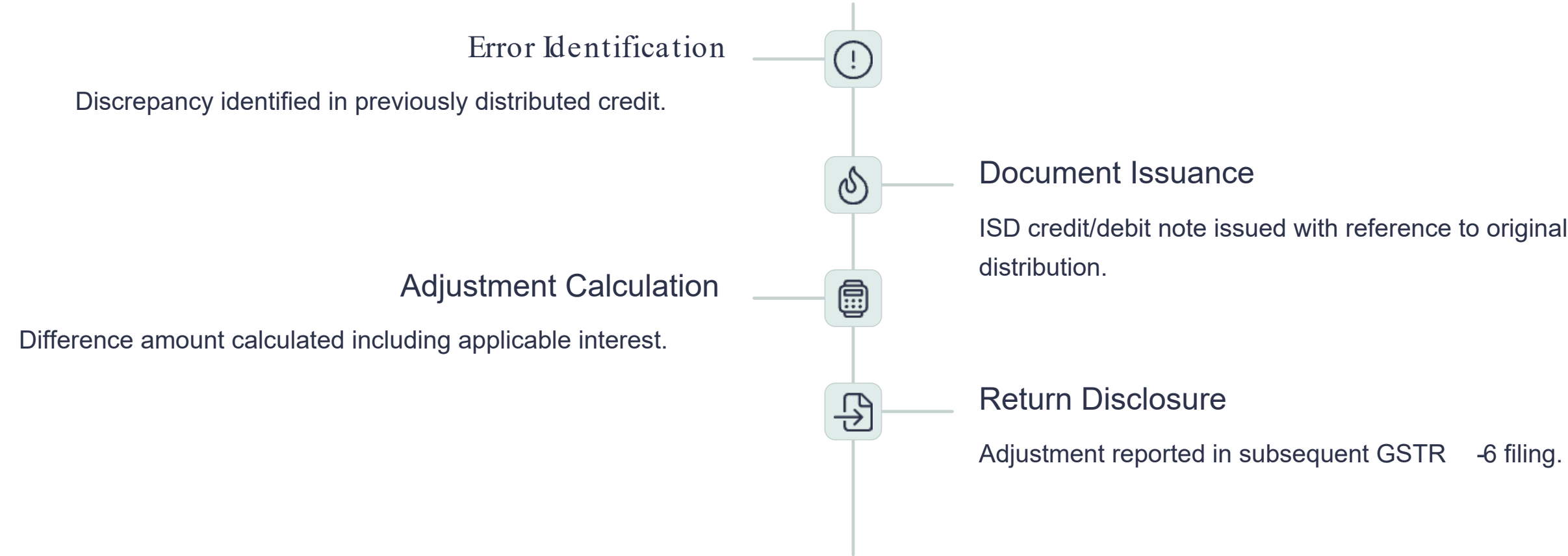


GSTR6 Filing

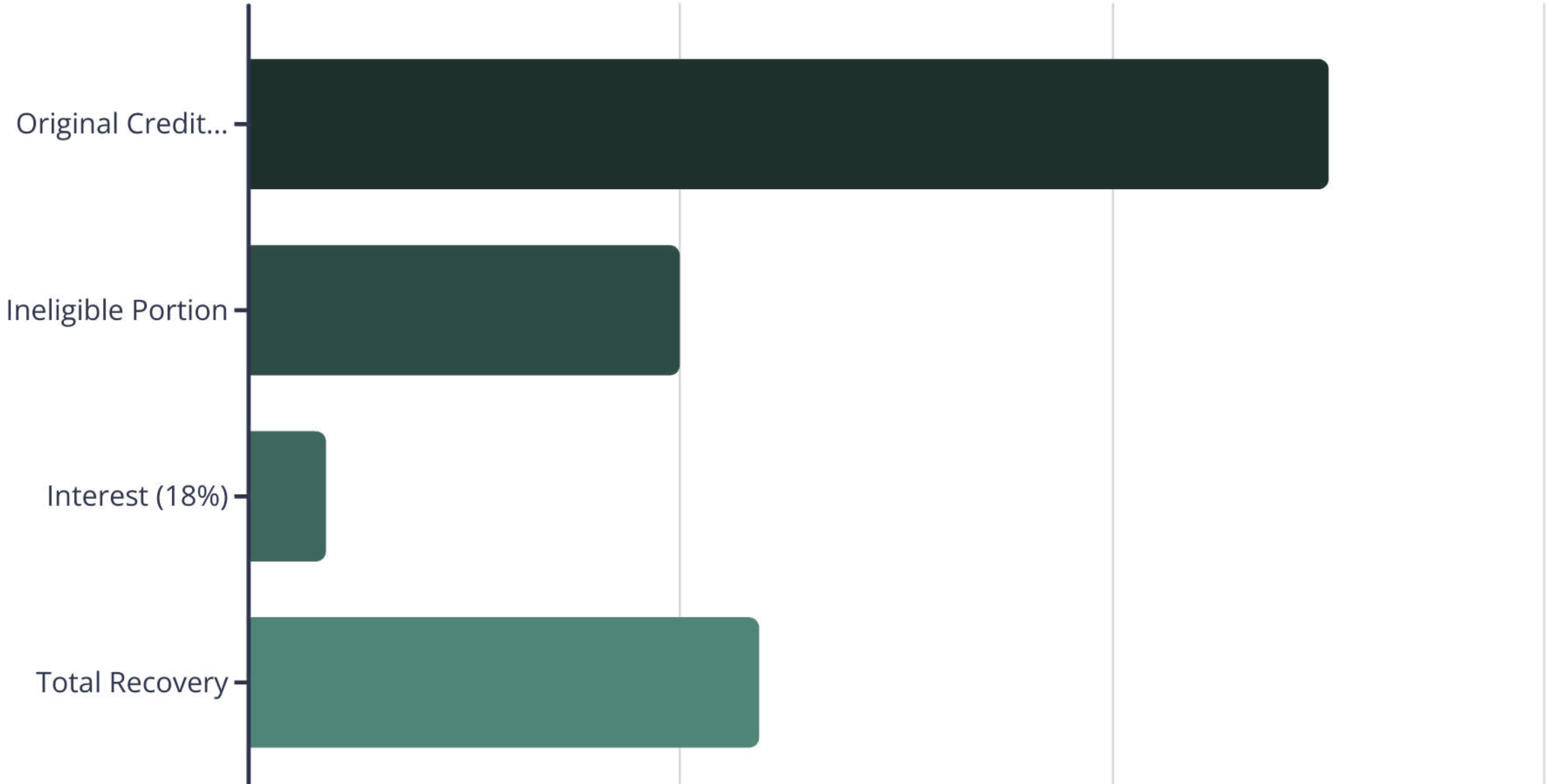
Final return submission after verification.



Correction & Modification of ISD Credits



Example: Reversal of Ineligible ISD Credit



Case Law: ISD Provisions Under GST



Surya Agencies vs UOI(2021)

Clarified that services for multiple units must be distributed via ISD.



XYZ Corp vs Commissioner (2022)

Upheld reversal of credit wrongly distributed through ISD.



AAR Maharashtra (2023)

Ruled on eligibility of specific insurance services for ISD distribution.

Practical Example 1: MultiLocation Retail Chain

Scenario

National retail chain with headquarters in Mumbai and 20 stores across India. Corporate HQ receives marketing invoice for ₹1,18,000 (including ₹18,000 GST).

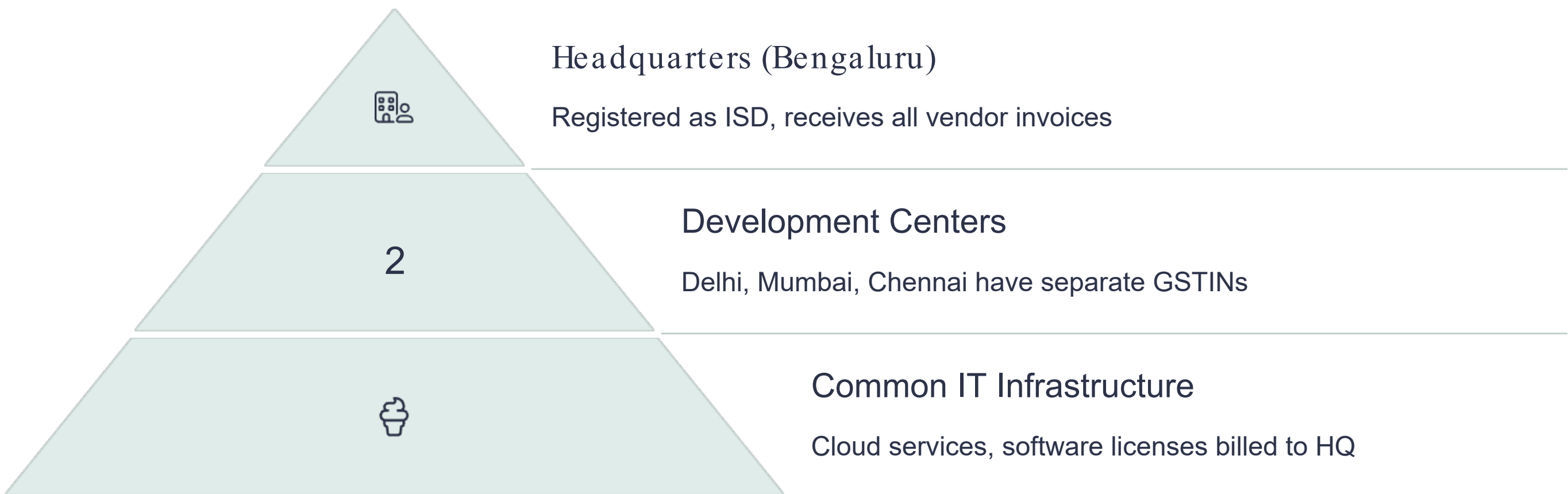
Marketing services benefit all stores. HQ must distribute credit proportionally based on store turnover.

ISD Solution

HQ registers as ISD. Receives invoice at Mumbai office. Calculates each store's proportion of total company turnover.

Issues 20 separate ISD invoices to distribute ₹18,000 GST credit. Tax type converted based on location (same/different states).

Practical Example 2: IT/ITES Company with ISD



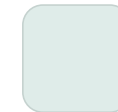
Bengaluru HQ distributes IT infrastructure credits to all development centers based on employee headcount ratio. This ensures each location receives appropriate credit for its share of common services.

Error Scenarios– Incorrect ISD Distribution



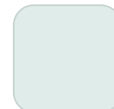
Distributing Goods Credit

ISD distributes credit for office supplies purchase. This violates ISD limitation to services only.



Wrong Proportion

Using incorrect turnover figures leads to disproportionate distribution. This creates tax compliance risks.



Ineligible Recipients

Distributing credit to exempt units or those providing exempt services. This results in recoverable credit with interest.



Practical Tips for ISD Compliance



Automation

Implement specialized software for ISD credit tracking and distribution.



Standardization

Create consistent templates for ISD invoices and distribution documentation.



Regular Reviews

Conduct monthly reconciliation between inward services and distributions.



Staff Training

Ensure accounting team understands ISD provisions and calculations.





Penalties for Non-Compliance

₹10,000

Minimum Penalty

Fixed penalty for procedural non-compliance regardless of tax impact.

18%

Interest Rate

Annual interest on wrongful credit distribution from date of utilization.

100%

Maximum Penalty

In fraud cases, penalty equal to tax amount wrongfully distributed.



Audit and Scrutiny: ISD Transactions

Audit Triggers

- Significant credit distribution variations between periods
- Mismatch between GSTR -6 and recipient GSTR -3B
- Unusual distribution patterns or industry outliers

Documentation Defense

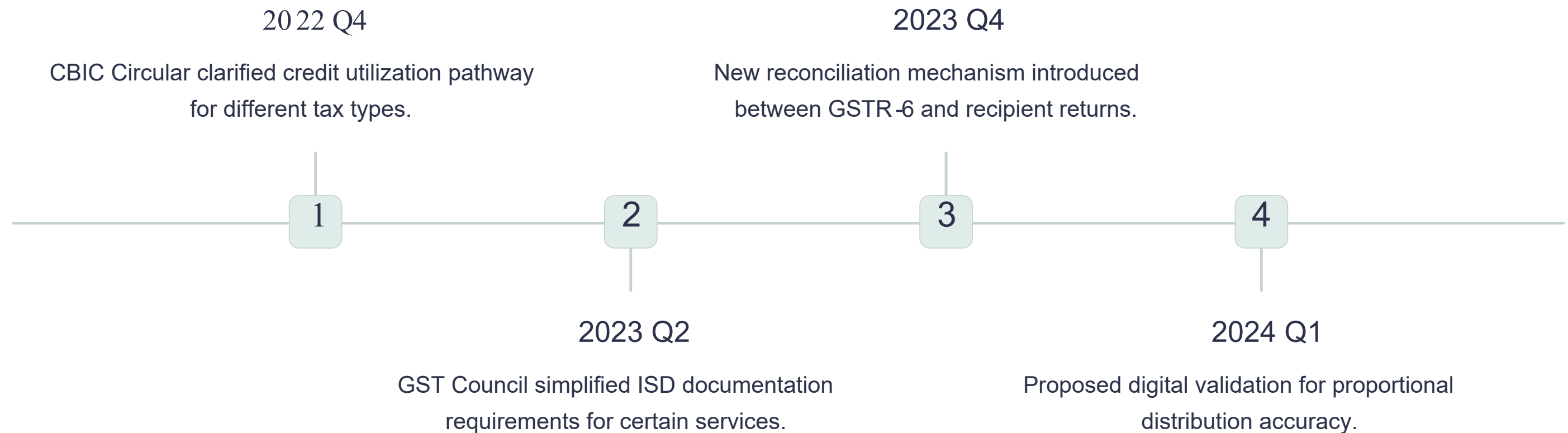
- Maintain distribution calculation worksheets
- Preserve original invoices with clear service descriptions
- Document turnover calculation methodology

Scrutiny Response

- Respond promptly to department notices
- Provide coherent methodology explanation
- Show consistent application of distribution logic

MEETING

Recent Updates: ISD Provisions & Amendments



Conclusion & Key Takeaways

Multi-Unit Essential

ISD mechanism is critical for credit optimization in multi-location businesses.

Compliance Shield

Well-managed ISD provides protection against departmental scrutiny.



Documentation Focus

Strict recordkeeping and process adherence prevent penalties and credit loss.

Credit Efficiency

Proper ISD implementation strengthens ITC flow and minimizes tax burden.

Closing Remarks

Question???

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