

**Handbook
on
Input Service Distributor
under GST**



The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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Foreword

The introduction of Goods & Services Tax (GST) in India is one of the most significant indirect tax reforms since Independence. The reform that took more than a decade of mutual co-operation, continuous discussion and intense debate between Central and State Governments about implementation methodology, was finally implemented with effect from 1st July 2017, subsuming almost all indirect taxes at the Central and State levels. As the journey of GST implementation progressed in India, the authorities have been quick to address the various challenges faced by the Industry and public concerns by issuing a series of notifications, clarifications, press releases and FAQs, to resolve a wide range of concerns.

The GST along with its challenges have brought in various benefits also like creation of National market by bringing down fiscal barriers amongst the States and has mitigated the cascading effect of taxes by allowing seamless credit of input tax across goods and services. The Institute of Chartered Accountants of India (ICAI) through its GST & Indirect Taxes Committee has been playing a vital role in the implementation of GST in India by providing suggestions to the Government at each stage of development of GST. Further, the Institute has been playing a proactive role and is a catalyst in dissemination of knowledge and awareness through technical publications, newsletters, e-learning and organizing various programmes, Certificate courses, webcasts etc. for all stakeholders.

I am happy to note that the GST & Indirect Taxes Committee of ICAI has now taken an initiative to issue a series of Handbooks covering various procedural aspects of GST and in that series is bringing out this **Handbook on Input Service Distributor under GST** with an objective to provide a basic understanding of the topic. The Handbook explains the concepts / procedures relating to Input Service Distributor in an easy to understand language and is aimed at updating the knowledge base of members in a simple and concise manner.

I congratulate CA. Rajendra Kumar P, Chairman, CA. Sushil Kumar Goyal, Vice-Chairman and other members of GST & Indirect Taxes Committee for coming out with this Handbook and for taking active steps in providing regular guidance to the members and other stakeholders at large.

I am sure that the Members will find this publication very useful in discharging the statutory functions and responsibilities in an efficient and effective manner.

CA. Atul Kumar Gupta
President, ICAI

Date: 11th August, 2020

Place: New Delhi

Preface

The Goods and Services Tax (GST) was introduced in India from 1st July, 2017. It is one of the major tax reforms since independence in the area of indirect taxation. It was introduced with the objective to mitigate the cascading effect of taxes by allowing seamless credit across goods and services, facilitate free flow of goods and services across India and boosting tax revenue from better compliance and widening the tax base. A remarkable feature of GST implementation is that all the States in India came together with the Centre to form a unique federal body called GST Council, which is entrusted with the objective of recommending policies and procedural matters in the formation and implementation of GST legislation. The spirit of co-operative federalism took deep roots thereby ensuring that large federal countries like India implement the GST Law.

In order to facilitate an understanding of the various compliances under GST, the GST & Indirect Taxes Committee of ICAI has taken an initiative to prepare a handbook on procedural aspects like registration, refund, return, Invoice etc. One of the results of such initiative is this **Handbook on Input Service Distributor under GST**. An attempt has been here made to cover all aspects related to Input Service Distributor at one place and is intended to give general guidance to all stakeholders and also help them in resolving issues that they may face during the course of the compliances under GST laws. This Handbook on Input Service Distributor under GST is a comprehensive one containing analysis of the entire provisions under the law including notifications, circulars and orders upto 31st July, 2020 issued by the Government from time to time along with a set of FAQ's, MCQ's, as also Flowcharts, Diagrams and Illustrations etc. to make the reading and understanding easier.

We stand by the Government in our role as "Partners in GST Knowledge Dissemination" and have always been supporting Government with our intellectual resources, expertise and efforts to make GST error-free.

We sincerely thank CA. Atul Kumar Gupta, President and CA. Nihar Niranjan Jambusaria, Vice-President, ICAI for their encouragement to the initiatives of the GST & Indirect Taxes Committee. We express our gratitude for the untiring effort of CA. P Sankaran who has shared his intellectual expertise and CA. Shankara Narayanan V for reviewing this publication. We place on

record the services and unstinted support provided by the Secretariat of the Committee.

We trust this Handbook will be of practical use to all the members of the Institute and other stakeholders. We also welcome suggestions at gst@icai.in and request you to visit our website <https://idtc.icai.org> and provide valuable inputs in our journey to make GST truly a good and simple tax.

CA. Rajendra Kumar P
Chairman
GST & Indirect Taxes Committee

CA. Sushil Kumar Goyal
Vice- Chairman
GST & Indirect Taxes Committee

Date: 11th August, 2020

Place: New Delhi

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Chapter 1

Introduction to Input Service Distributor

Introduction

The concept of *Input Service Distributor* (ISD) was present under the Service Tax regime also before the introduction of GST. This old concept is adopted under GST with some modifications. The purpose of introduction of ISD is to distribute input tax credit on services among the units of the same entity having same PAN which supplies goods or services or both. ISD is an office of an entity which requires authorization to distribute the ITC services by way of registration with the authorities. The registration of office of an entity as ISD is different from the branch office registration. Usually Branch office registration facilitates supplies of goods or services or both among the branches and principal place of business. Further the branches in other States of the same PAN entity are required to be registered in the respective States and they are all distinct persons in the eyes of GST Law.

But ISD is the distinct office and it cannot make any supply and raise invoices for the supply and it is not a place of business. It exists merely to distribute the input services related input tax credit which are received on behalf of the units of the same entity which supplies goods, services or both. ISD shall distribute the input service-related input tax credit in the same month in which input credit on services is received and shall report the same by filing the return.

ISD operation under erstwhile CENVAT credit regime [Rule 2(m) of CENVAT Credit Rules]

"Input service distributor" means an office of the manufacturer or producer of final products or provider of output service, which receives invoices issued under rule 4A of the Service Tax Rules, 1994 towards purchases of input services and issues invoice, bill or, as the case may be, challan for the purposes of distributing the credit of service tax paid on the said services to such manufacturer or producer or provider, as the case may be"

ISD can distribute the credit to any unit under service tax regime

During the initial operation of CENVAT Credit Rules there were no specific guidelines for distribution of input services. There was a doubt whether the ISD can distribute the credit of input services to the non-related unit having no nexus to that service. In the absence of specific guidelines for distribution of the input credit, the ISD can distribute the credit to any of its units of its choice. This view is also supported by the CBEC vide Circular No 97 dated 23.08.2007 that ISD can distribute the input credit to any units. Similar view was taken in *CCE Pune-I v Mahindra & Mahindra Ltd; Appeal No E/457/2011* that ISD can distribute the credit to any unit even though the credit is not attributed to that unit.

Amendment to CENVAT Credit Rules

The free choice of distribution of ITC services by ISD was curbed by an amendment to CENVAT Credit Rules. [CBEC vide *Notification No. 13/2016-Central Excise (NT), dated March 1, 2016* CENVAT Credit Rules, 2004, effective from 01.04.2016]

An ISD will distribute CENVAT credit in respect of service tax paid on the input services to its manufacturing units or units providing output service or to outsourced manufacturing units subject to, inter alia, the following conditions:

- (i) Credit attributable to a particular unit shall be attributed to that unit only.*
- (ii) Credit attributable to more than one unit but not all shall be attributed to those units only and not to all units.*
- (iii) Credit attributable to all units shall be attributed to all the units.*
 - *Credit shall be distributed pro rata on the basis of turnover as is done at present.*
 - *An outsourced manufacturing unit shall maintain separate account of credit received from each of the ISD and shall use it for payment of duty on goods manufactured for the ISD concerned.*

Introduction to Input Service Distributor

- Provisions of Rule 6 will apply to units availing the CENVAT credit distributed by ISD and not to the ISD.
- Now, manufacturers with multiple manufacturing units are allowed to maintain a common warehouse for inputs and distribute inputs with credits to the individual manufacturing units.

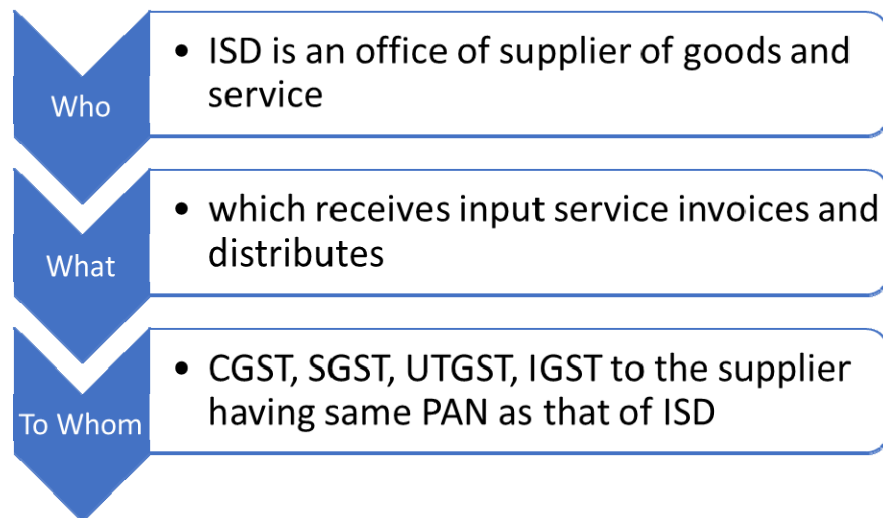
Gist of the Amendment

From a plain reading of the amendment, the credit to a unit will be allocated only to the attributable unit. If more than one unit is involved, then credit will be distributed on pro rata basis of the turnover. Credit attributable to all units shall be distributed to all units. The concept of ISD prevailing under the Service tax regime has been adopted under GST regime.

Present position under GST Law

Definition of 'Input service distributor' under GST Law

Section 2(61) of CGST Act defines Input Service Distributor to mean "an office of the supplier of goods or services or both which receives tax invoices issued under section 31 towards the receipt of input services and issues a prescribed document for the purposes of distributing the credit of Central tax, State tax, integrated tax or Union territory tax paid on the said services to a supplier of taxable goods or services or both having the same Permanent Account Number as that of the said office;"



Handbook on Input Service Distributor under GST

The definition appears to indicate that ISD shall not raise any taxable invoice. ISD shall only be a recipient and more specifically only services and distribute the resultant input tax credit.

ISD must be registered exclusively for receiving input credit service invoice and distribution of the same to related units. ISD cannot involve in any business activity of supply.

From the above it is clear that ISD is an office of an entity which does not involve in supply of goods or services or both but receives invoice of Input service and distributes the credit of CGST, SGST, UTGST and IGST, attributable to the concerned unit only of the supplier having same PAN.

Relevant Statutory Provisions

Section/ Rule	Subject
Section 2 (61)	Definition of Input Service Distributor
Section 16	Eligibility and Conditions for taking Input Tax Credit
Section 17 (5)	Ineligible Credit
Section 20	Manner of Distribution by ISD
Section 24	Compulsory registration
Rule 39	Procedure for distribution of Input Tax Credit by ISD
Rule 54	Tax Invoice in special cases
Rule 65	Form and manner of submission of return by Input Service Distributor
Section 73	Determination of tax not paid or short paid or erroneously refunded or input tax credit wrongly availed or utilized for any reason other than fraud or any willful mis-statement or suppression of facts.
Section 74	Determination of tax not paid or short paid or erroneously refunded or input tax credit wrongly availed or utilized by reason of fraud or any willful mis-statement or suppression of facts.

Chapter 2

Manner of Credit Distribution by ISD

Manner of Credit Distribution by ISD

Section 20 of the Central Goods and Services Tax Act, 2017 and Rule 39 of the Central Goods and Services Tax (CGST) Rules, 2017 deal with the manner of distribution of credit.

Section 20 of CGST Act.

- (1) *The Input Service Distributor shall distribute the credit of central tax 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 being distributed in such manner as may be prescribed.*
- (2) *The Input Service Distributor may distribute the credit subject to the following conditions, namely: –*
 - (a) *the credit can be distributed to the recipients of credit against a document containing such details as may be prescribed;*
 - (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;*
 - (e) *the credit of tax paid on input services attributable to all recipients of credit shall be distributed amongst such recipients*

Handbook on Input Service Distributor under GST

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.

Explanation.– For the purposes of this section, –

- (a) the “relevant period” shall be--*
 - (i) 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*
 - (ii) 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;*
- (b) 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;*
- (c) 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”*

Provisions under Rule 39 of the Central Goods and Services Tax (CGST) Rules, 2017 relating to “Procedure for Distribution of Input Tax Credit (ITC) by Input Service Distributor (ISD)”, are as under:

Rule 39

(1) An Input Service Distributor shall distribute input tax credit in the manner and subject to 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;*

Manner of Credit Distribution by ISD

- (b) *the Input Service Distributor shall, in accordance with the provisions of clause (d), 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;*
- (c) *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 clause (d);*
- (d) *the input tax credit that is required to be distributed in accordance with the provisions of clause (d) and (e) of sub-section (2) of section 20 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 recipient(s) 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-*
- $$C_1 = (t_1 \div T) \times C$$
- where,*
- "C" is the amount of credit to be distributed,*
- "t₁" is the turnover, as referred to in section 20, of person R₁ 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 section 20;*
- (e) *the input tax credit on account of integrated tax shall be distributed as input tax credit of integrated tax to every recipient;*
- (f) *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*

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and State tax or Union territory tax that qualifies for distribution to such recipient in accordance with clause (d);

- (g) the Input Service Distributor shall issue an Input Service Distributor invoice, as prescribed in sub-rule (1) of rule 54, clearly indicating in such invoice that it is issued only for distribution of input tax credit;*
- (h) the Input Service Distributor shall issue an Input Service Distributor credit note, as prescribed in sub-rule (1) of rule 54, for reduction of credit in case the input tax credit already distributed gets reduced for any reason;*
- (i) 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 (f) and the amount attributable to any recipient shall be calculated in the manner provided in clause (d) and such credit shall be distributed in the month in which the debit note is included in the return in Form GSTR-6;*
- (j) 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 (d), 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.**

(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 (j) of sub-rule (1) shall apply, mutatis mutandis, for reduction of credit.

(3) Subject to sub-rule (2), the Input Service Distributor shall, on the basis of the Input Service Distributor credit note specified in clause (h) of sub-rule (1), issue an Input Service Distributor invoice to the recipient entitled to such

Manner of Credit Distribution by ISD

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'

Accumulation of Input Tax Credit

An Input Service Distributor shall accumulate and ascertain all the Input Tax Credits that are reported against their GSTIN. This data can be accessed in GSTR-6A.

Nil return for GSTR-3B & GSTR-1 can now be filed through SMS.

Financial Year* 2019-20 Return Filing Period* March SEARCH

Return for input service distributor GSTR6 Status- Filed VIEW GSTR6

Details of auto drafted supplies GSTR6A VIEW

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Dashboard Returns GSTR6A English

GSTR6A - Details of supplies auto-drafted from GSTR-1

GSTIN - FY - 2019-20	Legal Name - PRIVATE LIM Return Period - March	Trade Name PRIVATE LIM
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Input tax credit received for distribution Debit / Credit notes (including amendments thereof) received during current tax period

Amendments to Input tax credit received for distribution Amendments to Credit/Debit Notes received during current tax period

GSTR 6A

GSTR 6A which is a system generated draft statement of inward supplies contains the following -

- Input Tax Credit received for distribution

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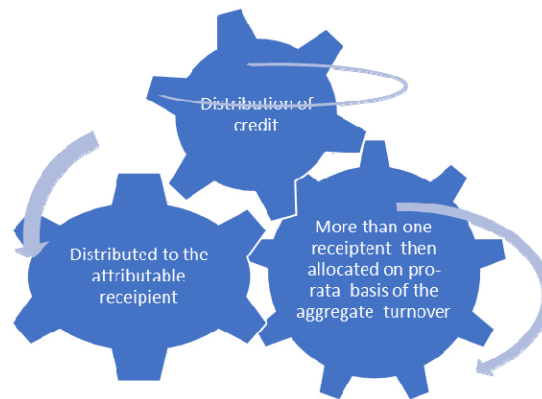
- (b) Debit / credit notes (including amendments thereof) received during current tax period
- (c) Amendments to input tax credit received for distribution
- (d) Amendments to credit/debit notes received during current tax period

The invoices appearing in GSTR 6A could be in the nature of ;

- (a) Input services eligible for availing input tax credit
- (b) Debit note and/ or credit note pertaining to the above invoice
- (c) Input services ineligible for availing input tax credit
- (d) Debit note and/ or credit note pertaining to the above invoice
- (e) Others (example goods procurement invoice may have been reported)

Irrespective of the eligibility of Input tax credit or otherwise all the invoices with GST charged on it shall have to be distributed by the Input Service Distributor.

Distribution of Input Tax Credit on Services



The credit of tax paid on input services attributable to a recipient of credit shall be distributed only to that recipient.

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

Manner of Credit Distribution by ISD

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.

Distribution of Input Credit in the same month

ISD shall distribute the input credit in the same month and its details must be furnished in Form GSTR 6.

Separate Distribution of Eligible and Ineligible credit

ISD shall distribute eligible and ineligible credit separately in accordance with the amount derived by applying the formula as set out in clause (d) read with clause (e) of sub-section (2) of section 20.

The eligibility or otherwise of the input tax credit, specifically input services related credit shall be determined as laid in the provisions of Sections 16 & 17 of the CGST Act, 2017 read along with the relevant rules.

Method of Calculation of Input Tax Credit to be Distributed

Input tax credit is required to be distributed in accordance with the provision of clause (d) and (e) of sub section (2) of Section 20 to one of the recipient 'R1' whether registered or not, from amongst the total of all the recipients to whom input tax credit is attributable including those who supply the exempt supply.

$$C_1 = (t_1 / T) \times C$$

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

"t₁" is the turnover of recipient

"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 section 20.

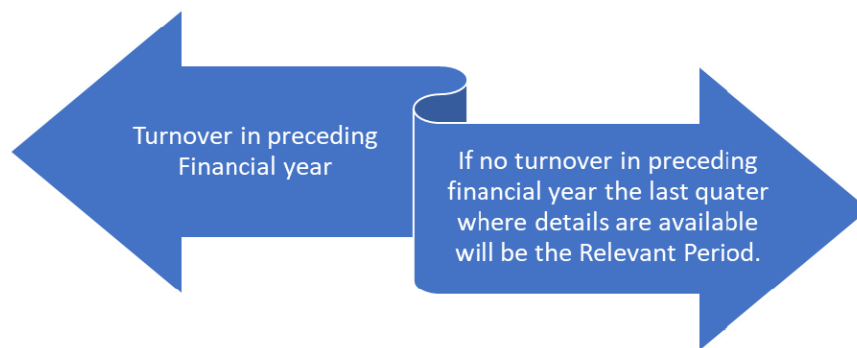
"Relevant period" shall be—

- (i) 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

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- (ii) 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;

Relevant Period



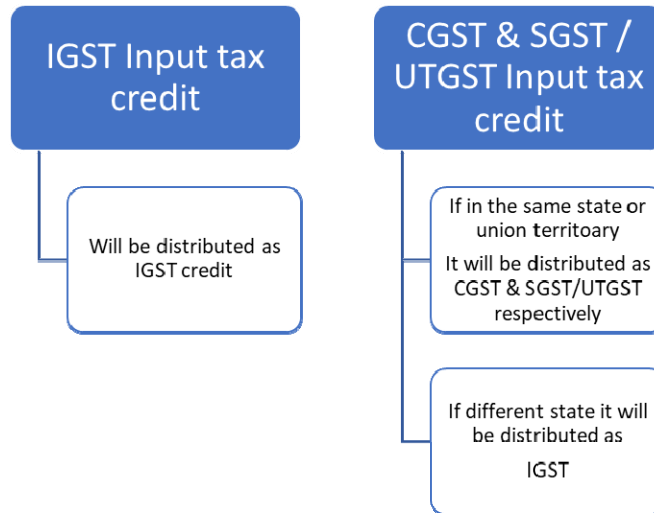
(b) the expression "recipient of credit" means the supplier of goods or services or both having the same permanent account number as that of the Input Service Distributor;

(c) 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 Entry 84 or 92A of List I of the Seventh Schedule to the Constitution and Entries 51 and 54 of List II of the said Schedule.

Mode of distribution of CGST/SGCT/UTST/ IGST

The mode of distribution of CGST/SGCT/UTST/ IGST is explained in the following flowchart:

Manner of Credit Distribution by ISD



Distribution of IGST Credit

From the above it is clear that if IGST is to be distributed, then it will be distributed as IGST only.

Distribution of SGST /CGST/ UTGST

If SGST/ CGST/ UTGST has to be distributed to a recipient in the same State in which the ISD is located then it will be distributed as SGST/ CGST/ UTGST respectively. If it is to be distributed to a recipient in other State/ Union Territory, then the credit can be distributed as IGST.

Illustration 1

ABC Ltd has two units at Ooty and Shimla. It has purchased hill station climate coats for its employees and has input tax credit. Whether the ISD can distribute the credit of the above items.

The ISD cannot distribute input tax credit from goods to its units. From the definition in section 2(61), ISD can distribute input tax credit only from the *services received*.

Illustration 2

ABC Ltd has two units at Delhi and Chennai. ABC Ltd has received tax invoice of INR 10,000/- towards advertisement service attributed to Chennai unit alone. Whether this credit can be distributed by ISD to Delhi Unit?

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No, as the input service is attributed only to the Chennai Unit the ISD cannot distribute the credit to the Delhi Unit.

Illustration 3

M/s XYZ Ltd, having its Head Office at Mangalore, is registered as ISD. It has three units in different places namely 'Madurai, Pune and Lucknow which are operational in the current year. M/s XYZ Ltd furnishes the following information for the month of July, 2020 & asks for permission to distribute the input tax credit to various units as under :

- (i) CGST paid on services used only for Madurai Unit: Rs.3,00,000/-
- (ii) IGST, CGST & SGST paid on services used for all units: Rs.12,00,000/-

Total turnover of the units for the financial year 2019-20 are as follows (in Rs.):

Total turnover of three units = Rs. 10,00,00,000

Turnover of Madurai unit = Rs. 5,00,00,000 (50%)

Turnover of Pune unit = Rs. 3,00,00,000 (30%)

Turnover of Lucknow unit = Rs. 2,00,00,000 (20%)

Computation of Input Tax Credit Distributed to various units is as follows:

<i>Particulars</i>	Credit distributed to all units			
	<i>Total credit available</i>	<i>Madurai</i>	<i>Pune</i>	<i>Lucknow</i>
CGST paid on services used only for Madurai Unit	3,00,000	3,00,000	0	0
IGST, CGST & SGST paid on services used in all units Distribution on pro rata basis to all the units which are operational in the current year	12,00,000	6,00,000	3,60,000	2,40,000
Total	15,00,000	9,00,000	3,60,000	2,40,000

Manner of Credit Distribution by ISD

Note 1: Credit distributed pro rata based on the turnover of all the units is as under: -

(a) Unit - Madurai: $(5,00,00,000/10,00,00,000) * 12,00,000 = \text{Rs.} 6,00,000$

(b) Unit - Pune: $(3,00,00,000/10,00,00,000) * 12,00,000 = \text{Rs.} 3,60,000$

(c) Unit - Lucknow: $(2,00,00,000/10,00,00,000) * 12,00,000 = \text{Rs.} 2,40,000$

Illustration 4

XYZ Ltd. has its head office located in Mumbai (Maharashtra) which is a registered ISD. It has four units in different cities: one in Bengaluru (Karnataka), one in Delhi, one in Chennai (Tamil Nadu) and one in Pune (Maharashtra). Bengaluru unit operates from another location in Karnataka at Belgavi but the GSTIN number is the same for both Bengaluru and Belgavi. Delhi unit was not operational during the year.

Turnover generated at different locations is as follows:

Bengaluru:	Rs. 5,00,00,000
Belgavi:	Rs. 3,00,00,000
Pune:	Rs. 8,00,00,000
Chennai:	Rs. 4,00,00,000
Total turnover for the year is	Rs. 20,00,00,000

Distribution of Tax credit is as follows:

Note: If there are two or more locations of a recipient in a same State/ Union Territory, the sum of their turnover is to be considered in working out the proportion of the credit that will be distributed to that registration. In this case, turnover of Belgavi and Bengaluru needs to be clubbed and shown as turnover of Karnataka.

Situation 1

XYZ Ltd. receives an invoice from supplier 'A' with an Input tax credit-IGST of Rs. 18,00,000 for May 2020, services used by all units.

Solution to Situation 1

XYZ Ltd Head office (ISD) shall distribute Rs. 18,00,000 among all units except Delhi as it is not operational in the ratio in 2:1:2(^) as follows :

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Pune – Maharashtra : in the form of IGST Rs. 7,20,000/- i.e
(18,00,000/20,00,00,000) x 8,00,00,000/-

Chennai – Tamil Nadu : in the form of IGST Rs. 3,60,000/- i.e
(18,00,000/20,00,00,000) x 4,00,00,000/-

Bengaluru & Belgavi - Karnataka : in the form of IGST Rs. 7,20,000/- i.e
(18,00,000/20,00,00,000) x 8,00,00,000 (*)

(^) Being ratio of turnover as – 8,00,00,000 : 4,00,00,000 : 8,00,00,000 i.e.
2:1:2

(*) Inclusive of the turnover at Belgavi as it is not a separate unit but
extension of Bengaluru unit within the same state.

Situation 2

Also, XYZ Ltd received an invoice from supplier 'B' with an input tax credit -
CGST and SGST totaling Rs. 1,00,000 that is used entirely by the Pune unit.

Solution to Situation 2

XYZ Ltd Head office (ISD) shall distribute Rs. 1,00,000 to Pune only in the
form of CGST of RS.50,000 and SGST of Rs. 50,000 each as the supply
from supplier 'B' was exclusively for Pune Unit

Illustration 5

XYZ Ltd. received a credit note from the supplier 'A' in January 2020 in
respect of supplies made in December for ITC Rs 80,000. Now, this ITC
mentioned in credit note will be reduced from January month total ITC
distributed, in the same ratio in which the original ITC was distributed i.e.
2:1:2

(to be furnished in part 6B of the GSTR-6 of January 2020)

Pune: in the form of IGST of Rs. 32,000

Chennai: in the form of IGST of Rs. 16,000

Bengaluru & Belgavi: in the form of IGST of Rs. 32,000 (*)

Illustration 6

XYZ Ltd. received a Debit note from the supplier 'C' in February 2020 in
respect of supplies made in December for ITC Rs 10000. Now, this ITC
mentioned in debit note will be added to February month total ITC distributed,

Manner of Credit Distribution by ISD

in the same ratio in which the original ITC was distributed i.e. 2:1:2 between Pune, Chennai and Bengaluru (to be furnished in part 6B of the GSTR-6 of February 2020).

Pune: in the form of CGST Rs. 2,000 and SGST of Rs. 2000

Chennai: in the form of IGST of Rs. 2,000/-

Bengaluru & Belgavi: in the form of IGST of Rs. 4,000

(#) Being ratio of turnover as – 8,00,00,000 : 4,00,00,000 : 8,00,00,000

(*) Inclusive of the turnover at Belgavi as it is not a separate unit but extension of Bengaluru unit within the same State.

Returns of ISD

ISD should file monthly returns in Form GSTR-6 (give details of ISD tax invoices) within 13 days after the end of the month. These details will be reflected in Form GSTR 2A of respective branches/unit.

ISD return in Form GSTR-6 contains the following tables;

1. GSTIN
2. (a) Legal name of the registered person
(b) Trade name, if any
3. Input tax credit received for distribution
4. Total ITC/Eligible ITC/Ineligible ITC to be distributed for tax period (From Table No. 3)
5. Distribution of input tax credit reported in Table 4
6. Amendments to the information furnished in earlier returns in Table No. 3
7. Input tax credit mis-matches and reclaims to be distributed during the tax period
 - a. In respect of mismatch liability will be populated by the system
8. Distribution of input tax credit reported in Tables. 6 and 7 (plus / minus)
9. Redistribution of ITC distributed to a wrong recipient (plus / minus)
10. Late Fee
11. Refund claimed from electronic cash ledger

Handbook on Input Service Distributor under GST

GSTR-6 - Invoice Details To Add / View Details in a Particular Table Please Click in the Respective Table.

3 - Input tax credit received for distribution 21		6B - Debit Notes/Credit Notes received 0		6A - Amendment of information furnished in earlier returns in Table 3 0	
Integrated tax	Central Tax	Integrated tax	Central Tax	Integrated tax	Central Tax
₹6,348.60	₹1,24,767.30	₹0.00	₹0.00	₹0.00	₹0.00
State/UT Tax	CESS (₹)	State/UT Tax	CESS (₹)	State/UT Tax	CESS (₹)
₹1,24,767.30	₹0.00	₹0.00	₹0.00	₹0.00	₹0.00

6C - Amendment of Debit Notes/Credit Notes received 0	
Integrated tax	Central Tax
₹0.00	₹0.00
State/UT Tax	CESS (₹)
₹0.00	₹0.00

To

GSTR-6 - ITC Distribution

4 - Total ITC available and Eligible ITC/Ineligible ITC distributed		5, 8 - Distribution of input tax credit (ISD Invoices & ISD Credit notes) 2		9 - Redistribution of ITC distributed in earlier returns 0	
Total ITC available	Total Eligible ITC	Total Eligible ITC		Total Eligible ITC	
₹2,55,083.20	₹2,27,557.40	₹2,27,557.40		₹0.00	
Total Ineligible ITC		Total Ineligible ITC		Total Ineligible ITC	
₹28,325.80		₹28,325.80		₹0.00	

GSTR-6 - Other Details

10 - Late Fee	
Central Tax	State/UT Tax
₹0.00	₹0.00

[GENERATE GSTR6 SUMMARY](#)

I acknowledge that I have reviewed the details of the preview and the information is correct and would like to submit the details. I am aware that no changes can be made after submit.

[BACK](#)
[PREVIEW](#)
[SUBMIT](#)
[FILE RETURN](#)

Form GSTR-6 can be filed only after 10th of the month and before 13th of the month succeeding the tax period.

ISD will not have any reverse charge supplies. If ISD wants to take reverse charge supplies, then ISD has to separately register as normal taxpayer.

ISD will attract late fee and any other liability only.

Mismatch liability between GSTR-1 of supplier and GSTR-6 of ISD will be added to ISD and further ISD taxpayer has to issue ISD credit note to reduce the ITC distributed earlier to its registered recipient units.

Refund claimed from cash ledger through Table 11 will result in a debit entry in electronic cash ledger.

Chapter 3

Registration of Input Service Distributor

Registration of Input Service Distributor

Section 24 of CGST Act, specifies, when registration is compulsory. According to it, ISD must be compulsorily registered irrespective of the turnover limit.

Section 25 deals with the procedure involved in registration which specially provides that *every person being an Input Service Distributor shall make a separate application for registration as such Input Service Distributor.*

The procedure for registration of an Input Service Distributor and registered person is the same under GST. *Input Service Distributor shall make a separate application for registration as such Input Service Distributor.*

- The permanent account number shall be validated online by the common portal from the database maintained by the Central Board of Direct Taxes.
- Mobile number and email shall be validated by sending One Time Password.
- On successful verification of the permanent account number, mobile number and e-mail address, a temporary reference number shall be generated and communicated to the applicant on the said mobile number and e-mail address.
- The applicant shall electronically submit an application in Part B of Form GST REG-01. Form REG 1 is the form which needs to be filled for registration under GST. *Serial no 14, sub clause (ix)* deals with ISD registration.
- The application should be duly signed or verified through electronic verification code, along with the documents specified in the said Form.

CHECKLIST OF DOCUMENTS FOR REGISTRATION UNDER GST

1. Photographs

- Proprietor/ Partners/ Karta/ Managing Director/ Managing Trustee/ CEO/ Authorized Signatory

- 2. PAN Card**
 - Proprietor/ Company/ HUF/ Partnership Firm/ Authorized Signatory.
- 3. Aadhaar Card**
 - Proprietor/ Karta/ Partner/ Authorized Signatory.
- 4. Proof of Constitution of Business**
 - Shop License/ Registration Certificate/ Proof of constitution
 - Partnership Deed
 - Company Incorporation Certificate
- 5. Proof of Principal Place of Business**

Own Premises

 - Latest property tax receipt, Municipal Khata Copy, electricity bill etc.
 - Rented or leased premises
Valid rent or leased agreement along with any document in support of the ownership of premises of the lessor like latest property tax receipt, municipal khata copy, electricity bill.
 - Where the rent/leased agreement is not available, an affidavit to that effect along with any document in support of the possession of the premises like copy of Electricity Bill.
 - *For premises not covered above*
 - A copy of the consent letter with any document in support of the ownership of the premises of the consenter like Municipal Khata copy or Electricity Bill copy.
 - For shared properties also, the same documents may be uploaded.
- 6. Details of additional place of business**
 - Address of additional place of business with supporting paper like rented, owned or other.
- 7. Bank Account Related Proof**
 - First page of bank passbook/bank statement or cancelled cheque.

Registration of Input Service Distributor

8. Letter of Authorized Signatory in case of partnership firm, company, HUF etc.
9. DSC in applicable cases like company, LLP etc.

- The applicant shall, while submitting an application under sub-rule (4), with effect from 01.04.2020, undergo authentication of Aadhaar number for grant of registration.
- On receipt of an application under sub-rule (4), an acknowledgement shall be issued electronically to the applicant in Form GST REG-02.

AAR DECISION-Registration of ISD Mandatory

In the case of *Cummins India Limited*, 2019-VIL-62-AAR., the Authority for Advance Ruling ('AAR') held that registration of ISD is mandatory for distribution of credits among its branches.

Illustration 1

XYZ Ltd has its place of business at Trichy, Tamil Nadu and is registered under GST. It has branches in Mysore, Pune and in Mangalore. It has paid Rs. 2,00,000 as input tax on services. Under the Head "CGST" an amount of Rs.1,00,000 and "SGST" an amount of RS.1,00,000 towards recruitment purpose from Trichy. The persons recruited are posted in all its branches at Mysore, Pune and Mangalore. Whether the credit can be distributed without *ISD registration?*

Answer: Separate ISD registration is required at Trichy for distribution of input tax credit service of Rs 2,00,000 to various branches place of supply of distinct person. ISD is a registration of an entity for distribution of services and is different from registration of the place of business.

Illustration 2

MNO Ltd has a place of business at Ernakulum and has branch offices at Coimbatore and Guntur. Whether branch offices can act as ISD?

From the reading of the definition of ISD under Section 2(61) it is clear that ISD is an entity level office which only receives tax invoice of input service and shall distribute the input tax credit of input service. An ISD cannot raise invoice on supply. Therefore, the branch cannot act as ISD if it provides supply and raise invoice. There must be separate ISD registration to receive invoices of supply of services on behalf of other units of the entity having same PAN.

Handbook on Input Service Distributor under GST

Illustration 3

MNO Ltd has two different business operations at Chennai. It has chemical manufacturing unit and also has a software business.

It incurs advertisement expenditure, common for its entire business unit at Mumbai marketing office. Whether ISD registration is necessary for distribution of credit?

The Answer to this question is YES

In order to take ITC credit, the inward supply must have nexus with output supply. In the above illustration, if the advertisement expenses are related to software marketing then ITC cannot be distributed to manufacturing unit on account of absence of nexus.

When a specific input service is availed by a particular unit., ISD cannot distribute the input tax credit to other units but only to that particular unit which availed the inward supply.

Illustration 4

ABC Ltd has various lines of business all over India. Whether the ISD needs to be registered in all States?

ISD registration at each State may be required if the office of the entity at all States receive invoice of input services on behalf of other units or place of business. For example, if one ISD is registered at Bengaluru and it alone receives all invoices of input service of its business, then one ISD registration is sufficient. If various offices at different places receive invoices on behalf of other units at various places then ISD registration is required at each such State to distribute the ITC services having nexus with their outward supply.

Illustration 5

XYZ Ltd has 4 branches in Nagpur, Kanpur, Jaipur and Goa. XYZ does not want to register as ISD. How to avail the ITC?

The input tax credit of service of one branch will not be distributed to the other branch. The only way to avail credit without registering as ISD is that the branch which avails the input service alone shall receive the invoice directly from its supplier irrespective of their location and it can avail the input tax credit .In that system, one branch cannot bear the expenses of supply of

Registration of Input Service Distributor

service of the other branch and so the input tax credit of service distribution does not arise. This may be difficult to follow practically as it is the common practice that a unit shall bear the expense of all branches for administrative convenience.

Chapter 4

Tax Invoice

Tax Invoice

The ISD issuing invoice should clearly mention that the invoice is issued only for distribution of input tax credit.

Rule 54 of CGST Rules deals with the manner in which invoice is to be raised in special cases. The invoice raised by an ISD should contain the following:

- (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 symbolized 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:

Banking, financial and non-Banking companies can issue any document *in lieu* of the invoice containing the above details.

Registered person' Invoice having same PAN number of ISD

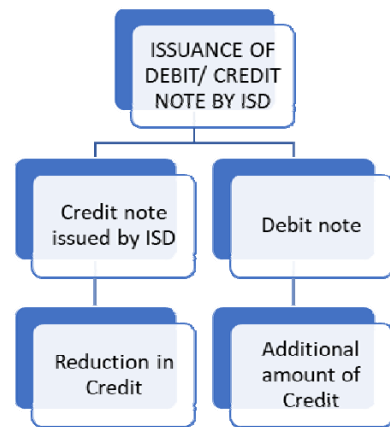
A registered person, having the same PAN and State Code as an Input Service Distributor, may issue an invoice or, as the case may be, a credit or debit note to transfer the credit of common input services to the Input Service Distributor, which shall contain the following details:-

- (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 symbolized 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 the 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 authorized representative.
- (b) The taxable value in the invoice issued under clause (a) shall be the same as the value of the common services.

This type of invoice would arise when a reverse charge liability has to be paid which happens to be common for the different units of an organization. An ISD cannot make reverse charge payment. Hence, the normally registered unit shall pay the tax under reverse charge and shall raise an invoice on the ISD for the common Input tax credit. The ISD in turn can avail the ITC based on this invoice and distribute such credit in the manner laid down in Rule 39 of the CGST Rules.

Issuance of Debit and Credit Note by ISD



Handbook on Input Service Distributor under GST

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 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 then.

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, then it should be reduced from the amount to be distributed in the month in which the credit note is included in the return in Form GSTR-6."

There is no specified format for debit notes to be raised by ISD in the CGST Rules. As the ISD debit note results in addition of credit, one may adopt the same format of an ISD invoice for raising an ISD debit note with a change only in the name of the document.

Chapter 5

Consequence of Excess Distribution of Credit by ISD

Circular No 71/45/2018-GST dated 26.10.2018 clarifies the consequence of excess distribution of credit by ISD to one unit.

1. According to Section 21 of the CGST Act where the ISD distributes the credit in contravention of the provisions contained in section 20 of the CGST Act 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 penalty, if any.
2. The recipient unit (s) which has received excess credit from ISD may deposit the said excess amount voluntarily along with interest if any by using Form GST DRC-03.
3. If the said recipient unit/ units does/ do not come forward voluntarily, necessary proceedings may be initiated against the said unit(s) under the provisions of section 73 or 74 of the CGST Act as the case may be. Form GST DRC-07 can be used by the tax authorities in such cases.
4. The ISD would also be liable to a general penalty under the provisions contained in section 122(1)(ix) of the CGST Act.

Illustration 1

The total credit available to ISD is Rs 5,00,000/- and the credit shall be distributed equally to Chennai and Mangalore. If the ISD distributes the credit of Rs.3,00,000/- to Chennai and Rs.2,00,000 to Mangalore, what would be the consequence.

Answer: The excess credit of Rs.50,000/- distributed to Chennai would be recovered from the recipient Chennai along with interest and provisions of section 73 or 74 shall apply *mutatis mutandis* for effecting such payment of tax. Further the ITC of Rs.50,000/- recovered from Chennai shall lapse and it will not be available to the Mangalore unit.

Handbook on Input Service Distributor under GST

Earlier, under the service tax regime there was no specific provision for distribution of credit note i.e. reversal of credit earlier distributed by ISD. Now specific provision is provided in the GST law providing for recovery of amount along with interest. Further, the relevant period of recovery of excess amount distributed is also provided in GST law.

Conclusion

Thus, the concept of ISD is a facility made available to businesses having a large share of common expenditure where billing/payment is done from a centralized location. The mechanism is meant to simplify the credit availing process for entities and the facility is meant to strengthen the seamless flow of credit under GST. ISD plays an important role in distribution of input tax credit on input service to multiple units.