

# Input Service Distribution (ISD) in GST



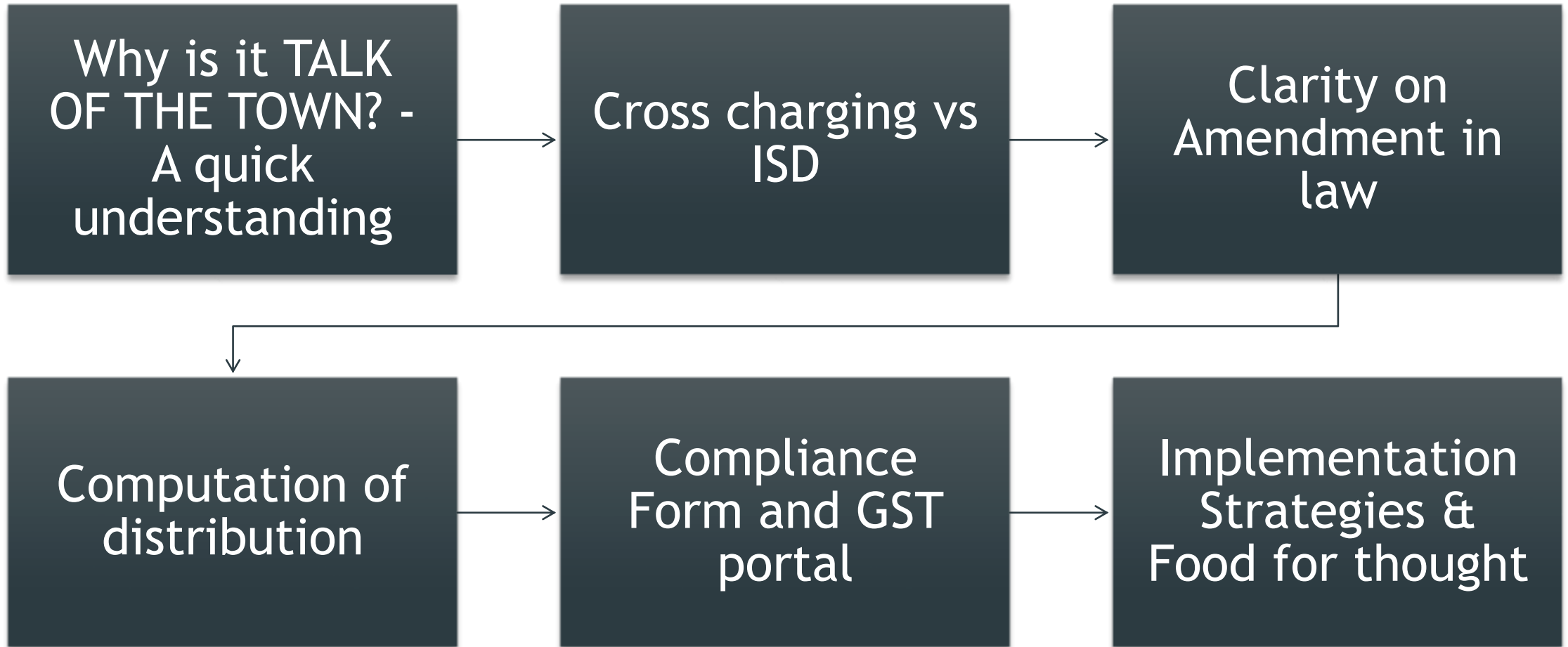
GST with Saradha

Last updated: 22<sup>nd</sup> March 2025



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# The Coverage



# ISD - Why “Talk of the Town”? - A quick understanding!

- ▶ Concept prevalent since Service Tax law
- ▶ Placed in GST law through Section 20 read along with Rule
- ▶ Distribution of credit through Form GSTR-6
- ▶ Announced as optional in 50<sup>th</sup> GST Council meeting
- ▶ Clarification vide Circular 199 dated 17th July, 2023
  - ▶ ISD optional and not mandatory
  - ▶ Cross charging can be NIL based on proviso to Rule 28, if Full ITC is eligible
- ▶ Amendment in law vide Finance Act 2024
- ▶ Mandatory effective 1<sup>st</sup> April 2025

# 50<sup>th</sup> GST council meeting recommendation

## Measures for facilitation of trade:

- ▶ 3. *The Council has recommended to clarify through a circular that Input Services Distributor (ISD) mechanism is not mandatory for distribution of input tax credit of common input services procured from third parties to the distinct persons as per the present provisions of GST law, and also to clarify issues regarding taxability of internally generated services provided by one distinct person to another distinct person. The Council has also recommended that amendment may be made in GST law to make ISD mechanism mandatory prospectively for distribution of input tax credit of such common input services procured from third parties.*

Never a GREY area ever...!



Cross  
Charging

ISD

# Cross Charging

Applicable when internally generated services are given by one distinct person to another

# ISD

Applicable when vendor provides services to one distinct person and issues tax invoice to another for centralized billing & payment process

# Cross Charging - Relevant provisions

*SCHEDULE I-[ section 7 ]*

*ACTIVITIES TO BE TREATED AS SUPPLY EVEN IF MADE WITHOUT CONSIDERATION*

*(2) Supply of goods or services or both between related persons or between distinct persons as specified in [section 25](#), when made in the course or furtherance of business:*

*Sec 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.*

# Cross Charging - Valuation relief

*Rule 28. Value of supply of goods or services or both between distinct or related persons, other than through an agent.*

*Provided further that where the recipient is eligible for full input tax credit, the value declared in the invoice shall be deemed to be the open market value of the goods or services.*





# Clarity on Amendment in the law

## *Section 20. Manner of distribution of credit by Input Service Distributor--*

*(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, 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.*

*(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 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.*

*(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.*



## **Section 2(61)**

“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;



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## Breaking the ISD Definition:

### 1. An office of the supplier of goods or services or both

- This means that ISD is not necessarily a separate legal entity but a specific office of a business (e.g., head office, corporate office, or branch).
- The office should be **registered as an ISD** under GST to distribute the credit.

### 2. Receives tax invoices towards the receipt of input services

- ISD receives **invoices for input services** availed by the company.
- Example: Head office receives advertising, consulting, or security services invoices for the entire company, but the benefit is used by multiple branches.



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### 3. Including invoices in respect of services liable to tax under sub-section (3) or (4) of section 9

- Under **Section 9(3)**, certain services are notified where the **recipient** (instead of the supplier) has to pay GST under reverse charge.
- Under **Section 9(4)**, if a registered person receives supplies from an **unregistered supplier**, they must pay tax under reverse charge.

ISD can also distribute ITC of GST paid under reverse charge **if it is first paid by a distinct person and then distributed.**

**Note:** NO option for RCM in GSTR6 – clarity required from CBIC – Author's suggested to pay in regular GSTIN and make cross charging as of now.

### 4. For or on behalf of distinct persons referred to in section 25

What is a distinct person?

**Section 25(4) & 25(5)** state that when a business entity registers in multiple states, each registration is treated as a **separate (distinct) person** under GST.



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**5. Liable to distribute the input tax credit in respect of such invoices in the manner provided in section 20:**

- **Section 20** lays down **how ISD should distribute the ITC**.  
ITC is **distributed in the same month** in which it is received.

## **6. Compliance Requirements for ISD**

- **Registration:**

- ISD must obtain a separate **GST registration** under **Section 24(viii)**.

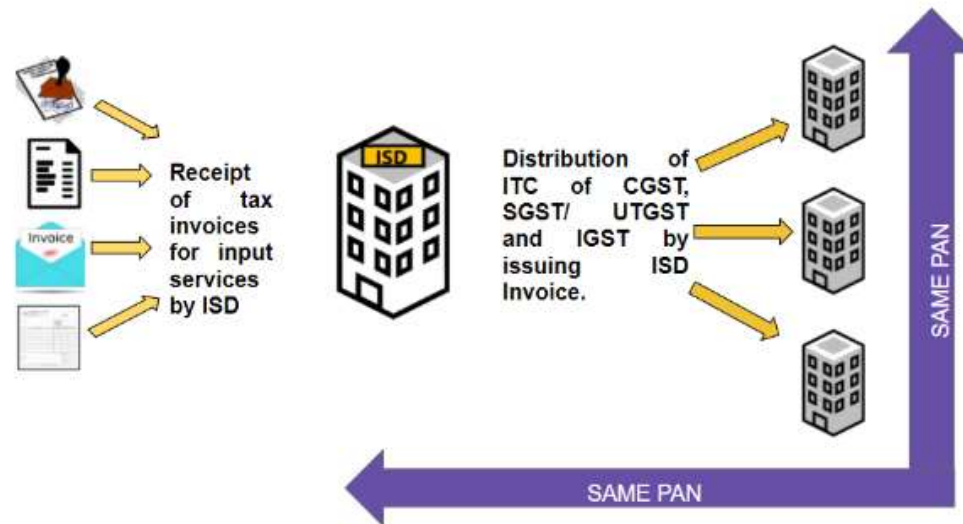
- **Invoices & Returns:**

- ISD **cannot make outward supplies**.
- It must issue **ISD invoices** (under Rule 54 of CGST Rules) while distributing ITC.
- ISD must file **Form GSTR-6** every month to report ITC distribution.



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## Distribution of ITC by ISD



## Manner of distribution of credit

# Manner of Distribution of Credit by Input Service distributor(Section 20):

## Step 1: Categorization of ITC for Distribution

✦ Is the ITC related to a specific recipient?

→ ☐ Yes → Allocate entire ITC to that recipient (No pro-rata distribution).

→ ☐ No → Proceed to next decision.

✦ Is the ITC related to more than one recipient or all recipients?

→ ☐ Yes → Distribute ITC proportionally based on turnover (Pro-rata basis).



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## Step 2: Pro-Rata Distribution Formula

### 💡 Formula:

**ITC to be distributed** =  $\text{Turnover of recipient} / \text{Turnover of all recipients} \times \text{ITC}$

- ✓ Consider only turnover of recipients with a nexus(or Attributable) to ITC.
- ✓ Exclude Excise Duty, VAT, CST, etc.

### 📊 Example Calculation:

- Total ITC = ₹1,00,000
- Delhi Turnover = ₹5,00,000
- Bangalore Turnover = ₹10,00,000
- ITC for Delhi = ₹33,333
- ITC for Bangalore = ₹66,667



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### Step 3: Determining Relevant Period for Turnover

✦ Is previous year's turnover available?

→ ☐ Yes → Use previous financial year's turnover for distribution.

→ ☐ No → Use last completed quarter's turnover before the distribution month.

### Step 4: Distribution of Ineligible ITC

✦ Is the ITC ineligible under GST rules (e.g., blocked credits like motor vehicles)?

→ ☐ Yes → Still distribute using the same pro-rata method.



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## Distribution of Taxes:

The way ITC (Input Tax Credit) is distributed depends on two main things:

**1.Location** – Whether the ISD (Input Service Distributor) and the recipient unit are in the same state or different states.

**2.Type of Tax** – Whether the ITC is for CGST & SGST/UTGST or IGST.



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Based on the above 2 factors, manner of distribution with example:

**Provision:**

Sr. No.	Location of ISD & Recipient Unit	Type of ITC Available	How ITC is Distributed
1	Both in the Same State/UT	CGST & SGST/UTGST	CGST & SGST/UTGST
2	In Different States/Uts	CGST & SGST	IGST
3	Any Location (Same or Different State/UT)	IGST	IGST

**Example:**

ISD Location	Recipient Location	Type of ITC available to ISD	How ITC is Distributed
Tamil Nadu	Tamil Nadu	CGST & SGST	CGST & SGST
Tamil Nadu	Andhra Pradesh	CGST & SGST	IGST
Tamil Nadu	Tamil Nadu	IGST	IGST
Tamil Nadu	Andhra Pradesh	IGST	IGST



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## Other Important Points related to Distribution of Taxes :

1. ITC is required to be distributed amongst the total of all the recipients to whom it is attributable, including the unregistered recipients or recipients engaged in making exempt supplies.
2. The amount of the eligible ITC and ineligible ITC u/s 17(5) of the CGST Act, 2017 are required to be distributed separately.
3. A Registered person in which GST under RCM has been paid on the input services received at multiple recipient locations, having the same PAN and State code as an ISD, is required to issue an invoice or a credit or debit note to transfer the credit of such common input services to the ISD.
4. The RCM credit transferred to the ISD shall be distributed in the same manner as discussed above.
5. The invoice/DN/CN issued by a registered person to ISD for the transfer of GST paid under RCM shall contain the details as per Rule 54(1A)(a).



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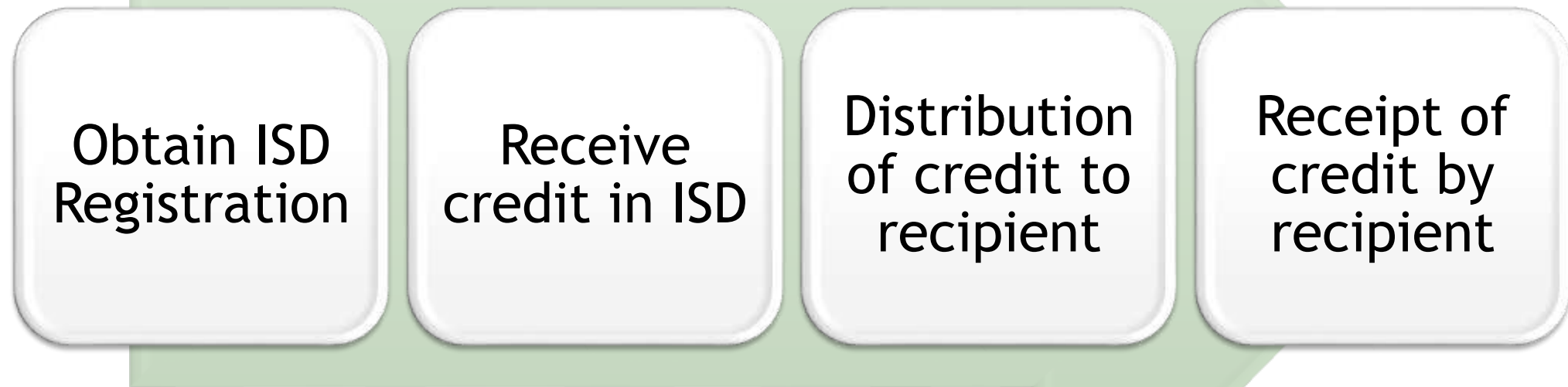


# GST Portal Compliance

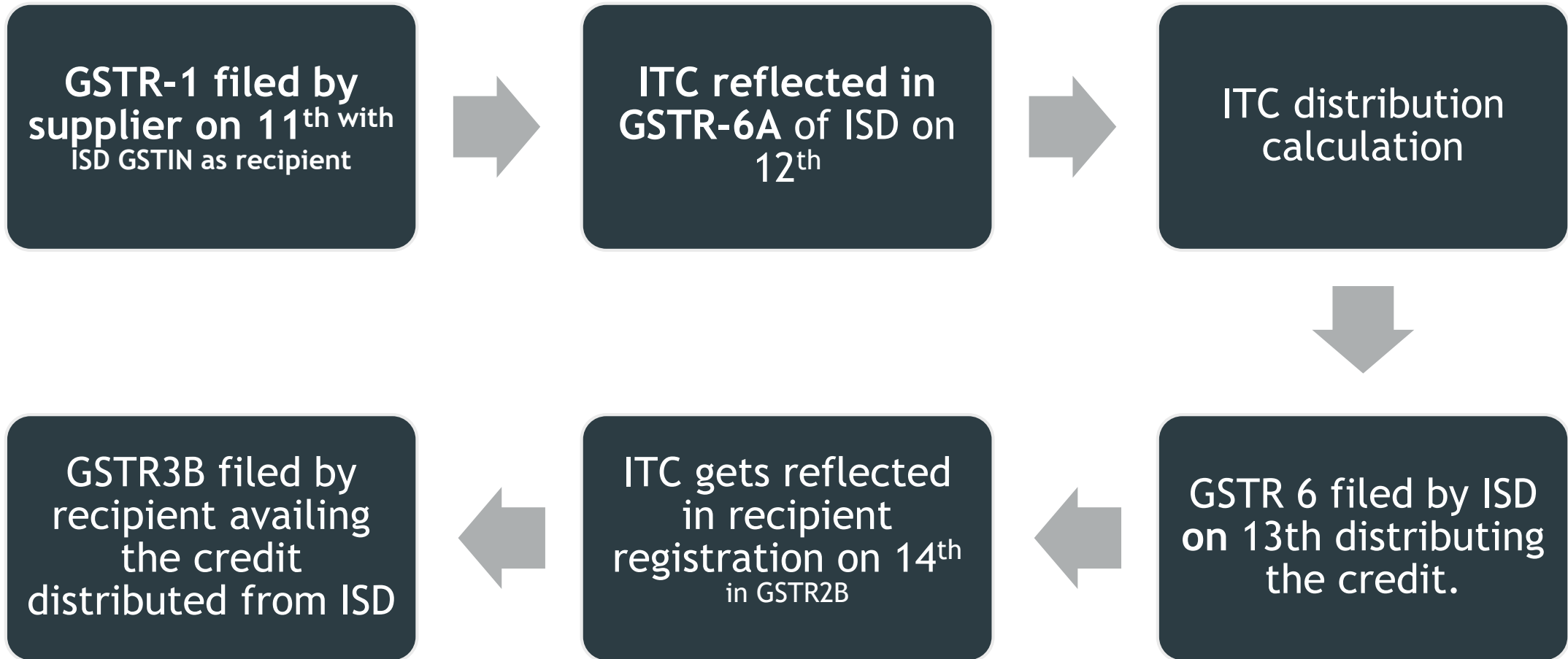


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# Key Action points

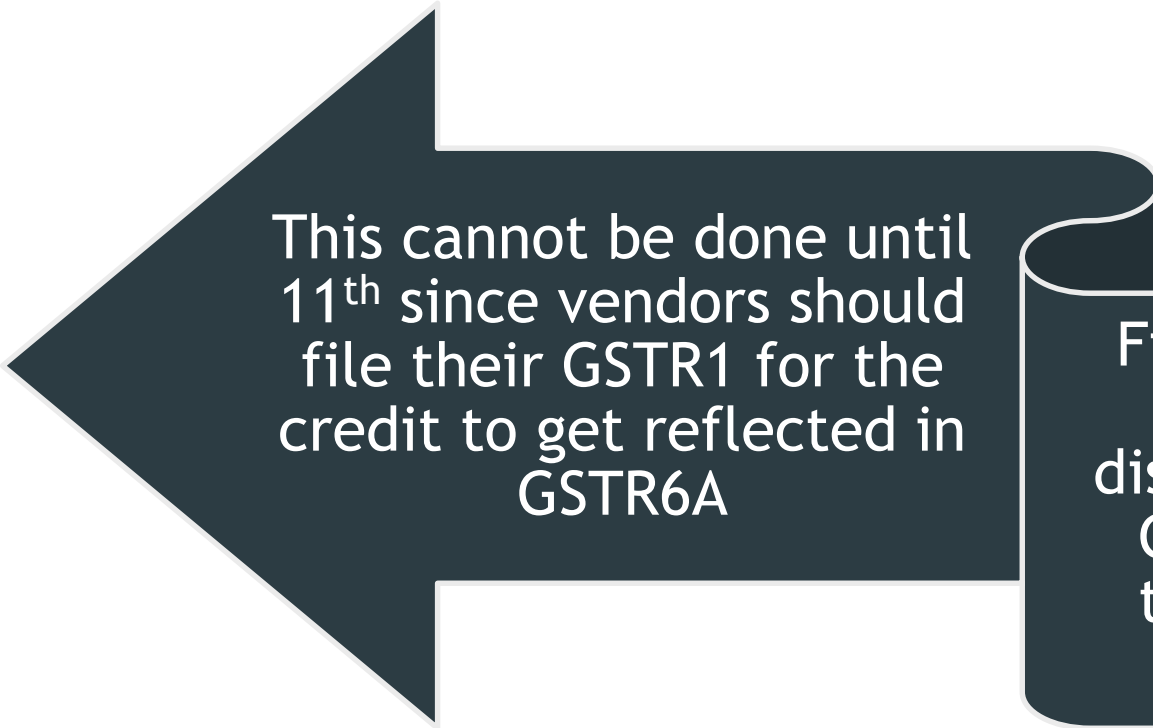


# Key steps involved

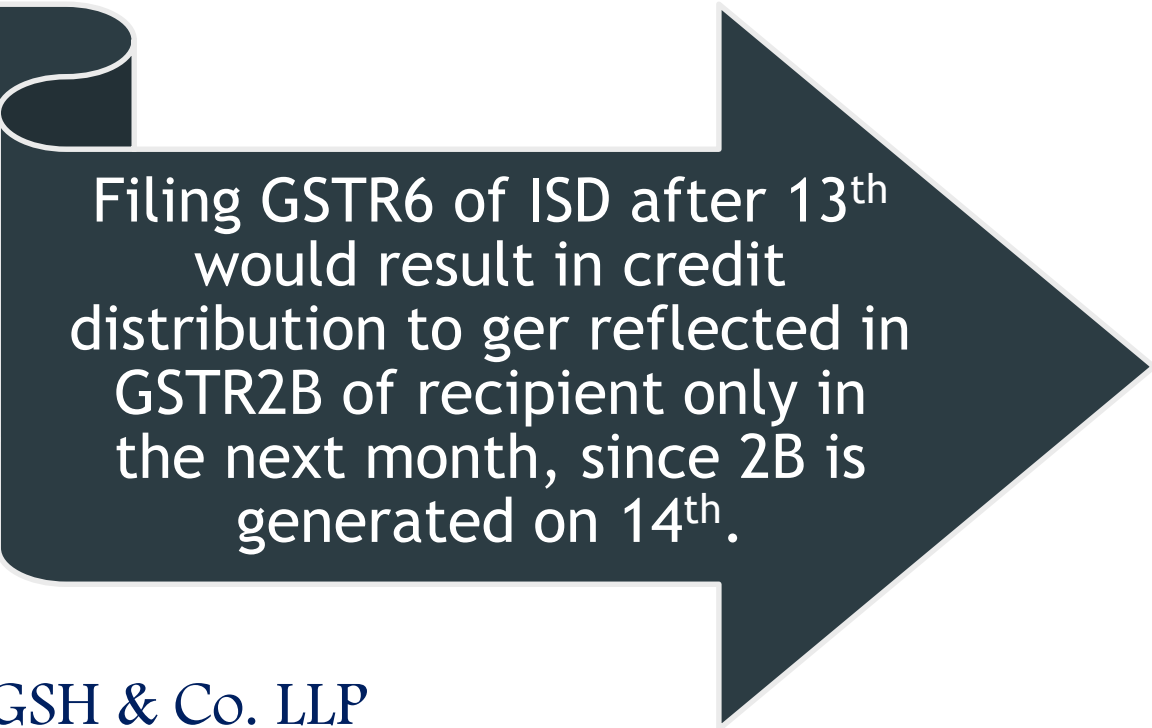




# Two Crucial dates for ISD - ITC distribution 12<sup>th</sup> and 13<sup>th</sup> of every month - Not Prior or Later!



This cannot be done until 11<sup>th</sup> since vendors should file their GSTR1 for the credit to get reflected in GSTR6A



Filing GSTR6 of ISD after 13<sup>th</sup> would result in credit distribution to get reflected in GSTR2B of recipient only in the next month, since 2B is generated on 14<sup>th</sup>.

# ISD GSTR-6 Dashboard

GSTR-6 - Return for Input Service Distributor

GSTIN

Local Name

Trade Name

Fr

Return Period

Status

Due Date

GSTR-6 - Invoice Details

3 - Input tax credit received for distribution

Count of records

20

Validated records

20

Validated with error

0

To be validated

0

6A - Amendment of information furnished in earlier returns in Table 3

Count of records

0

Validated records

0

Validated with error

0

To be validated

0

6B - Credit Notes/Debit Notes received

Count of records

2

Validated records

2

Validated with error

0

To be validated

0

6C - Amendment of Credit Notes/Debit Notes received

Count of records

0

Validated records

0

Validated with error

0

To be validated

0

GSTR-6 - ITC Distribution

4 - Total ITC available and Eligible ITC/Ineligible ITC distributed

Total ITC available

₹4,68,829.15

Total Eligible ITC

₹4,68,829.15

Total Ineligible ITC

₹0.00

5, 8 - Distribution of input tax credit (ISD Invoices & ISD Credit notes)

Count of records

9

Validated records

9

Validated with error

0

To be validated

0

9 - Redistribution of ITC distributed in earlier returns

Count of records

0

Validated records

0

Validated with error

0

To be validated

0

GSTR-6 - Other Details

10 - Late Fee

Central tax (₹)

₹0.00

State / UT tax (₹)

₹0.00

BACK

DOWNLOAD FILED GSTR-6 (PDF)

VIEW SUMMARY



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## ITC Received details:

### GSTR-6 - Invoice Details

❶ To Add / View Details in a Particular Table Please Click in the Respective Table.

#### 3 - Input tax credit received for distribution

<b>Count of records</b>	<b>16</b>
• Validated records	16
• Validated with error	0
• To be validated	0

#### 6A - Amendment of information furnished in earlier returns in Table 3

<b>Count of records</b>	<b>0</b>
• Validated records	0
• Validated with error	0
• To be validated	0

#### 6B - Credit Notes/Debit Notes received

<b>Count of records</b>	<b>1</b>
• Validated records	1
• Validated with error	0
• To be validated	0

#### 6C - Amendment of Credit Notes/Debit Notes received

<b>Count of records</b>	<b>0</b>
• Validated records	0
• Validated with error	0
• To be validated	0



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Table3 - ITC Received for distribution:

## B2B Invoices - Supplier Details

Help ? ↺

## Processed Records

Supplier's GSTIN	No. of invoices
27AAAC1234E	1
27AAAC5678E	1
27AAAC9012E	1
27AAAC3456E	2
27AAAC7890E	1

«	1	2	3	»
---	---	---	---	---

[BACK](#)

Table 6A: Amendment of the information furnished earlier in Table 3

Amend B2B Invoice

Help ⓘ ↺

No Invoices found for the provided Inputs. ×

• Indicates Mandatory Fields

Financial Year •  
2019-20 ▼

GSTIN •  
Enter GSTIN

Original invoice no. •  
Enter Invoice No

AMEND INVOICE

BACK

## Table6B:Credit/Debit Notes received from supplier:

Credit/Debit Notes - Supplier Details

Help ? ↺

Processed Documents

Supplier GSTIN	No. of documents
	1

BACK

ADD CREDIT NOTE/DEBIT NOTE

## Table6C: Amendment of Credit/Debit Notes earlier declared in Table 6B

Amended Credit/Debit Notes - Supplier Details

Help ? ↺

No document found for the provided Inputs. ×

• Indicates Mandatory Fields

Financial Year •  
2019-20 ▼

GSTIN •  
Enter GSTIN

Original Note No. •  
Enter Note No

AMEND DOCUMENT

BACK

## ITC Distribution:

### GSTR-6 - ITC Distribution

#### 4 - Total ITC available and Eligible ITC/Ineligible ITC distributed

Total ITC available	Total Eligible ITC
₹3,84,740.48	₹3,84,740.48
Total Ineligible ITC	
₹0.00	

#### 5, 8 - Distribution of input tax credit (ISD Invoices & ISD Credit notes)

<b>Count of records</b>	<b>9</b>
• Validated records	9
• Validated with error	0
• To be validated	0

#### 9 - Redistribution of ITC distributed in earlier returns

<b>Count of records</b>	<b>0</b>
• Validated records	0
• Validated with error	0
• To be validated	0

### GSTR-6 - Other Details

#### 10 - Late Fee

Central tax (₹)	State / UT tax (₹)
₹0.00	₹0.00



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Table4 : ITC distribution & Setoff Table:

ITC DETAILS					Help ?
<p><b>Total ITC available for distribution shall be auto updated based on the inward supplies reported in table no. 3 and 6 except where Place of Supply(PoS) lies in Supplier's State in case of inter-State supplies. ITC taken back through issue of ISD credit note(s) will also be added to the total credit available for distribution.</b></p>					X
Description	Integrated tax (₹)	Central tax (₹)	State/UT tax (₹)	Cess (₹)	
a. Total ITC available for distribution	1,65,926.38	1,09,407.05	1,09,407.05	0.00	
b. Amount of eligible ITC	3,56,386.26	14,177.11	14,177.11	0.00	
c. Amount of ineligible ITC	0.00	0.00	0.00	0.00	

Distributed credit reconciliation table

Description	Amount of ITC distributed including negative amounts in table 4A	Utilization of ITC for distribution			
		Integrated tax (₹)	Central tax (₹)	State/UT tax (₹)	Cess (₹)
1	2	3	4	5	6
Integrated tax (₹)	3,56,386.26	1,65,926.38	95,229.94	95,229.94	
Central tax (₹)	14,177.11	0.00	14,177.11		
State / UT tax (₹)	14,177.11	0.00		14,177.11	
Cess (₹)	0.00				0.00
Total	3,84,740.48	1,65,926.38	1,09,407.05	1,09,407.05	0.00

Table 5,8 : Disclosure of ITC distribution (Including Ineligible credits)

Input Service Distribution - Summary
Help ?

Eligible ITC
Ineligible ITC

Processed Records

Recipient details	Document type	No. of documents
	ISD Invoice	1
	ISD Invoice	1
	ISD Invoice	1
	ISD Invoice	1
	ISD Invoice	1

<<
1
2
>>

Pending Records (These will be added after validation)

Recipient details	Document type	No. of documents
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BACK

ADD DOCUMENT

Table 9 : Redistribution of ITC Distributed in Earlier period:

ISD Amendment Summary

Help ? ↺

Financial Year \*

2019-20

▼

Enter Invoice No. \*

Search Invoice

AMEND INVOICE

BACK

Table 10 : Late Fee

10. Late Fee			
Description	Central Tax (₹)	State/UT tax (₹)	Debit Number
Late fee	0.00	0.00	

BACK

Amount of Late fee per day is Rs.50 Per day ( CGST- Rs 25 + SGST- Rs 25)

# Some Food for Thought!

Mandatory w.e.f. 1<sup>st</sup>  
Apr 2025 - What  
does it means?  
Litigative issues  
ahead!

Consequences of  
non-compliances

Other practical  
challenges & issues

Implementation  
Strategies

Best practices

Action points



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# ARE YOU ISD READY?



If your business operates in multiple states with GST registration, this change could impact more than just your GST compliances but also in your vendor payment (AP) process and internal control mechanisms. With 1<sup>st</sup> April 2025 around the corner, it's essential to understand the impact on your business and plan your next steps carefully.

*Strategize & implement for smooth compliance and avoid litigation!*

For any clarification, kindly reach us at:



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