

It is quite common that businesses have a distributed system of manufacturing units or service rendering units across the nation. In simple words, businesses with **Head Offices (HO)** and **Branch Offices (BO)** which are spread across the nation – *could be in the same state or a different state*. Under this system, in order to have better operational efficiency and control, usually businesses adopt centralized billing for procurement of common services at the HO. This situation leads to the accumulation of input tax credit paid on common inward supplies which are used by the branch units.

In order to avoid the aforesaid situation, the concept of **Input Service Distributor (ISD)** was introduced in CENVAT credit rules, which allows the HO to distribute the input tax credit to eligible units which are engaged in manufacturing or rendering of taxable services. The HO, which does the centralized billing for procurement of common services is termed as the 'Input Service Distributor'.

In order to distribute the credit, the HO has to obtain a separate registration as an ISD, and file half yearly return.

As an ISD, the HO mainly performs the following:

- Receives service tax invoice for availing common input services
- Distributes the input tax credit to eligible units by issuing an invoice/challan, as required.

## Input Service Distributor under GST

The concept of Input Service Distributor (ISD) is provided in GST too. It is defined as '*an office of supplier of goods and/or services, which has received input services under the cover of tax invoice, and is allowed to distribute the said tax credit to the supplier of goods and/or services registered under the same PAN*'. This indicates that the ISD is an office:

- Which can be a head office, administrative office, corporate office, regional office, depot, and so on, belonging to registered taxable person who intends to distribute the credit
- Which receives tax invoices towards the receipt of inward supply of services
- Which distributes the tax credit paid of inward supplies of services to the branch units which have consumed the services, and issues invoices for the distribution of credit

## Registration under GST

An ISD is required to obtain a separate registration. The registration is mandatory and there is no threshold limit for registration for an ISD. Businesses who are already registered as an ISD under the existing regime (i.e. under Service Tax), will be required obtain a new ISD registration under GST. This is because, the existing ISD registration will not be migrated to the GST regime.

Businesses who are already registered as an Input Service Distributor under the existing regime (i.e. under Service Tax), will be required obtain a new ISD registration under GST.[CLICK TO TWEET](#)

## Manner of Distribution

Under GST, on an intrastate transaction, CGST and SGST will be applicable. In case of transaction within a union territory, CGST and UTGST will be applicable. IGST will be applicable in case of interstate transactions and imports. The following are the scenarios of distribution of credit by an ISD:

- ISD and the recipient of credit are located in the same state
- ISD and the recipient of credit are located in different states

The unit to which the input tax credit is distributed is referred to as the 'recipient of credit'.

## ISD and recipient of credit are located in the same state

When the ISD and recipient of credit are located in the same state/union territory, the input tax credit of IGST, CGST, SGST, and UTGST should be distributed to the recipient in the following manner:

Recipient of Credit and ISD are in same State	
Input Credit with ISD	Distribution to Recipient of Credit
IGST	IGST
CGST	CGST
SGST	SGST
UTGST*	UTGST*

*\*Applicable on transactions within a union territory*

### Let us understand with an example.

Top-In-Town Home Appliances Ltd, is located in Bangalore, Karnataka. They also have units located in Mysore, Chennai and Mumbai. The unit in Bangalore is the Head Office and registered as an ISD. They do bulk procurement of common services which are used by the other units too.

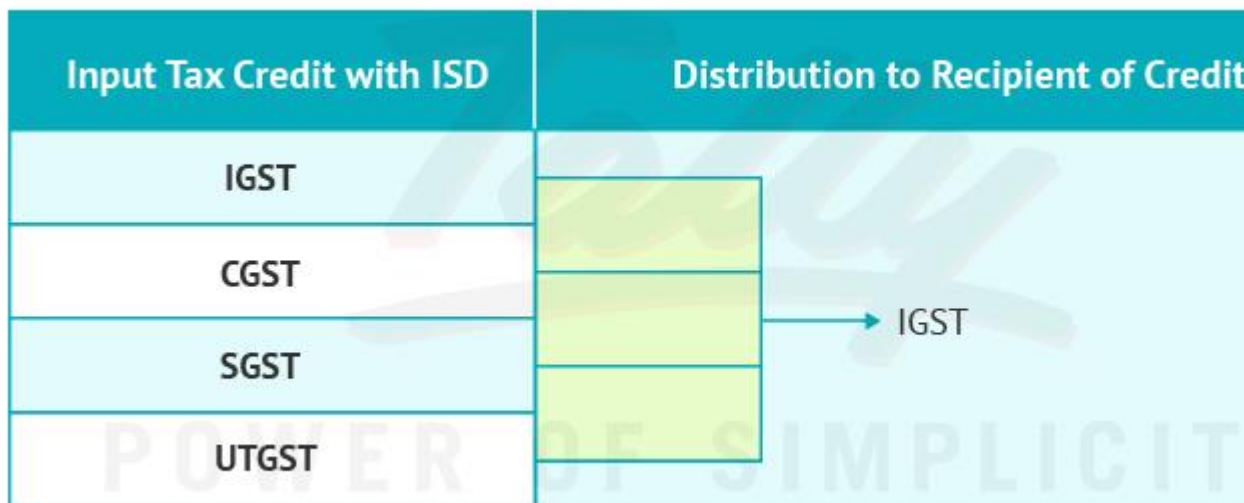
Top-In-Town Home Appliances Ltd (HO) receives an invoice of Rs.1,00,000 with GST of Rs.18,000 (CGST Rs.9,000 + SGST Rs.9,000) towards advertisement services provided exclusively to the Mysore unit.

The credit will be distributed as CGST Rs.9,000 and SGST Rs.9,000.

### Recipient of credit and ISD are located in different states

When the ISD and the recipient of credit are located in different states/union

territory, the input tax credit of IGST, CGST, SGST, and UTGST should be distributed to the recipient of credit in the following manner:



For example, Top-In-Town Home Appliances Ltd (HO) receives an invoice of Rs.1,00,000 with a GST of Rs.18,000 (CGST 9,000 + SGST 9,000) towards advertisement services provided exclusively to the Chennai unit.

The credit of CGST Rs. 9,000 and SGST Rs. 9,000 will be distributed to the Chennai unit as IGST, Rs. 18,000.

## Return Forms under GST

Return Type	Frequency	Due Date	Details to be furnished
Form GSTR-6A	Monthly	On 11 <sup>th</sup> of succeeding month	Details of inward supplies made available to the ISD recipient on the basis of FORM GSTR-1 furnished by the supplier
Form GSTR-6	Monthly	13 <sup>th</sup> of succeeding month	Furnish the details of the input credit distributed

The concept of ISD in GST is similar to the provisions existing under CENVAT credit rules and Service Tax. In this blog we have discussed about the fundamentals of an ISD in GST. Watch out for our next blog to know how to distribute the credit to the recipient of credit

## Conditions for distribution of input tax credit by an ISD

The following are the conditions applicable for distribution of input credit by an ISD:

**1.** An ISD invoice clearly indicating 'issued only for distribution of input tax credit', should be issued by the distributor to the recipient of credit. The unit to which the input tax credit is distributed is referred as the 'Recipient of credit'. The tax invoice should contain the following details;

- Name, address, and GSTIN of the Input Service Distributor
- A consecutive serial number containing only alphabets and/or numerals, unique for a financial year
- Date of its issue
- Name, address, and GSTIN of the supplier of services, the credit in respect of which is being distributed, and the serial number and date of invoice issued by such supplier
- Name, address, and GSTIN of the recipient to whom the credit is being distributed
- The amount of credit distributed, and
- Signature or digital signature of the supplier or his authorized representative

**2.** The amount of credit distributed shall not exceed the amount of credit available for distribution.

**3.** The input tax credit available for distribution in a month shall be distributed in the same month, and the details of the same shall be furnished in Form GSTR -6.

4. The input tax credit should be distributed only to that branch which has consumed the input services. Let us understand this with an example:

For example, Top-In-Town Home Appliances Ltd, is located in Bangalore, Karnataka. They also have branches located in Mysore (Karnataka), Chennai (Tamil Nadu), and Mumbai (Maharashtra). The unit in Bangalore is the Head office and they procure common services in bulk which are used by the other branches too.

Top-In-Town Home Appliances Ltd (HO) receives an invoice of Rs.1,00,000 + GST of Rs.18,000 towards advertisement services provided exclusively to the Mysore branch.

The total credit of Rs.18,000 will be distributed only to the Mysore branch.

5. The credit of tax paid on input services, availed by more than one recipient of credit or all, should be distributed only amongst such recipients or all recipients.

### **Method of input tax distribution**

The distribution shall be on pro rata basis based on the turnover for the previous year of such recipients. In the absence of turnover in previous financial year, the turnover of the last quarter of the month in which ITC is distributed, will be considered.

Let us consider the above example and understand in detail.

Amount of credit to be distributed	Rs.90,000
Number of recipients of credit	Mysore and Chennai
Aggregate turnover of Mysore unit in previous financial year (PY)	Rs.60 Lakhs
Aggregate turnover of Chennai unit in previous financial year (PY)	Rs.90 Lakhs
Aggregate turnover of all recipients of credit	Rs.150 Lakhs

The credit of Rs.90,000 will be distributed in the following manner:

$\frac{\text{Turnover of Recipient of Credit in PY}}{\text{Aggregate Turnover of all the recipients in PY}} \times \text{Amount of credit to be distributed}$	
<b>MYSORE</b>	<b>CHENNAI</b>
$\frac{60,00,000}{1,50,00,000} \times 90,000 = 36,000$	$\frac{90,00,000}{1,50,00,000} \times 90,000 = 54,000$

6. Any additional amount of input tax credit on account of issuance of a 'debit note' by a supplier to the ISD shall be apportioned to each recipient in the same ratio in which the input tax credit contained in the original invoice was distributed. The distribution should be on the basis of method illustrated in Point No. 5

7. In case the input tax credit already distributed gets reduced for any reason, an ISD credit note should be issued for the reduction of credit. The following details have to be captured in the ISD credit note :

- o Name, address, and GSTIN of the ISD
- o A consecutive SL.No containing alphabets or numerals or special characters such as hyphen or dash or slash, symbolized as, "-" "/" respectively, and any combination thereof, unique for a financial year
- o Date of its issue
- o Name, address, and GSTIN of the recipient to whom the credit is distributed
- o The amount of credit distributed, and
- o The signature or digital signature of the ISD or his authorized representative

**8.** Any input tax credit required to be reduced on account of issuance of a 'credit note' by a supplier to ISD should be apportioned to each recipient in the same ratio in which the input tax credit contained in the original invoice was distributed. The distribution should be on the basis of method illustrated in Point No. 5

**9.** The reduction amount so apportioned 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 and
- Added to the output tax liability of the recipient, in case the amount so apportioned is negative.