



## INPUT SERVICE DISTRIBUTOR

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The concept of ISD under GST is a legacy carried over from service tax regime. It is common practice in trade that corporate or head office of the organization procures certain services which are common for all units of such organization located across the country.

Being purchase orders are raised from HO, supplier issued invoice in the name of head office. However, head office itself would not be able to utilize the Input Tax Credit on such services as Head office would not be providing any output supply. Apart from this, there are certain services which are acquired for the organization as a whole. For example, services of chartered accountant by way of statutory audit, services of marketing, insurance, telecommunication, software services etc. These services are used by all units of the organization, however, single bill issued to head office of the organization.

Since common expenditure is meant for the business of all units, it needs to be apportioned between all the consuming units.

In order to distribute input tax credit of such services among all the consuming units, ISD mechanism has been introduced.

Input Service Distributor means an office of the supplier of goods and / or services which receives tax invoices issued under Sec. 31 towards receipt of input services and issues a prescribed document for the purpose of distributing the credit of CGST (SGST in State Acts) and / or IGST paid on the said services to a supplier of taxable goods and/or services having same PAN as that of the office referred to above.

It is important to note that the ISD mechanism is meant only for distributing the credit of common input services and not goods.

Given below are salient features of facility of Input Service Distributor:

1. A separate registration is required even if he is otherwise registered under GST
2. An Invoice needs to be raised for transfer of input tax credit on input services to other registered premises.
3. Invoice shall contain following:-
  - ✓ Name and address of Input Service Distributor
  - ✓ GSTN of Input Service Distributor

- ✓ Invoice No. and Invoice Date
- ✓ Name and Address of Receiver of credit, name of state and state code
- ✓ GSTN of receiver
- ✓ Amount of credit (tax wise) distributed to respective recipient
- ✓ Signature or digital signature of Input Service Distributor or his authorized representative.

4. Input Tax Credit can be distributed to registered premises under uniform PAN.
5. There can be more than one Input Service Distributor.
6. Credit needs to be distributed monthly
7. Eligible Credit as well as ineligible credit needs to be distributed
8. Credit can be distributed as per following:

Where ISD & recipient in different states:

- CGST plus SGST as IGST
- IGST as IGST

Where ISD & recipient in same state

- CGST as CGST
- SGST as SGST
- IGST as IGST

9. Credit can be distributed to operational units only.
10. Credit distributed should not exceed credit available for distribution
11. If Credit on input services is attributable exclusively to specific registered premise then such credit shall be distributed only to that registered premise only.
12. If the credit of tax paid on input services is attributable to more than one registered premises then credit shall be distributed only amongst such registered premises to whom the input service is attributable on the basis of the turnover in a State of such registered premises, 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;

*For Example:-*

There are four registered premises of a Company namely A, B, C & D having turnover of ₹500, 200,400 & 100 respectively. Credit of ₹100 with respect to services of consultancy is attributable only to A, B & C. Then, Credit of such consultancy services of ₹100 shall be distributed amongst AB&C only. No credit shall be distributed to 'D.' Thus,

Credit shall be distributed in following manner:

To  $A = 100 * 500 / 1100 = ₹45.45$   
 $B = 100 * 200 / 1100 = ₹18.19$   
 $C = 100 * 400 / 1100 = ₹36.36$

13. The credit of tax paid on input services attributable to all recipients of credit shall be distributed amongst such recipients on the basis of the turnover in a State 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.
14. Monthly return is required to be filed on 13<sup>th</sup> of following month.
15. "relevant period" shall be

(a) if the recipients of the credit have turnover in their States in the financial year preceding the year during which credit is to be distributed, the said financial year; or

(b) if some or all recipients of the credit do not have any turnover in their States 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.

In other words, if all the registered premises to whom credit is to be distributed have turnover in then turnover of previous year of such registered premises shall be considered.

If some or all registered premises do not have turnover in previous year than any previous quarter during which there is turnover in all registered premises shall be considered.

Explanation 3. – For the purposes of this section, 'turnover' means aggregate value of turnover, as defined under sub-section (6) of section 2.

16. Turnover means the aggregate value of all taxable supplies, exempt supplies, exports of goods and/or services and inter - State supplies of a person having the same PAN, to be computed on all India basis and excludes taxes, if any, charged under the CGST Act, SGST Act and the IGST Act, as the case may be;

*Explanation* - Aggregate turnover does not include the value of inward supplies on which tax is payable by a person on reverse charge basis under sub-section (3) of Section 8 and the value of inward supplies.

17. If Credit is distributed in contravention of provisions of Act resulting in excess distribution of credit, it will be recovered from the recipients with interest and penalty.

Conclusion:

The ISD mechanism is very useful to the organization having large share of common expenditure and having Centralized payment system.