Concept of Input Service Distribution (ISD) in GST

Section 20 of CGST Act, 2017 read with Rule 39 & 54 of CGST Rules, 2017

Who is Input Service Distributor? [Sec 2(61)]

- Is a 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 **tax invoice as per rule 54** 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;

* *Only ITC in relation to services can be distributed, not related to goods*

Compulsory Registration of ISD

Clause (viii) of Section 24 provides compulsory registration for Input Service Distributor, whether or not separately registered under normal provisions.

Manner of distribution [Sec 20]

1. Shall distribute ITC of

- Central tax as central tax or integrated tax and
- integrated tax as integrated tax or central tax

2. Conditions for distribution-

- The amount of the credit distributed shall not exceed the amount of credit available for distribution;
- ITC of input services attributable to a recipient of credit shall be distributed only to that recipient;
- ITC on input services **attributable to MORE THAN ONE RECIPIENT of credit** shall be distributed amongst **such recipients** to whom the input service is attributable in below formula-

Attributable ITC * [Turnover in a State or turnover in a Union territory of such recipient, during the relevant period / 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] - [(also see rule 39(d)]

Manner of distribution [Sec 20]

- ITC on input services **attributable to ALL RECIPIENTS of credit** shall be distributed amongst such recipients and such distribution shall be in below formula-

Attributable ITC * [Turnover in a State or turnover in a Union territory of such recipient, during the relevant period / aggregate of the turnover of all recipients and which are operational in the current year, during the said relevant period. [(also see rule 39(d)]

* *For definition of Relevant period, recipient of credit and turnover, refer explanation to section 20*

- ITC available for distribution in a month shall be distributed in the same month and the details shall be furnished in FORM GSTR-6.
- No requirement of filing normal GST returns.
- Separately distribute ineligible ITC (u/s 17(5) Blocked credit or otherwise) and eligible ITC

Manner of distribution [Sec 20]

- ITC on account of central tax, State tax, Union territory tax and integrated tax shall be distributed separately.
- **ITC- IGST**

shall be distributed as ITC-IGST to every recipient.

- **ITC- Central tax/State tax/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 ITC- Central tax/State tax/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 IGST and the amount to be so distributed shall be equal to the aggregate of the amount of input tax credit of central tax and State tax or Union territory tax that qualifies for distribution to such recipient as per formula.

Recovery of credit in contravention of section 20 resulting in excess distribution of credit to one or more recipients of credit [Sec 21]

Excess credit so distributed shall be recovered from such recipients along with interest in manner & determined under section 73 & 74.

Pradeep Goyal, Chartered Accountant

M +91-9811777103 | E-mail- pradeep@pgaa.in

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