Input Service Distributor

What?

- Fundamental principle behind **Input service distributor** is to transfer the credit to the place where services are actually consumed.
- ISD mechanism can be used to transfer ITC pertaining to **input services only.** It is a facility to transfer credit for common input services between benefiting units.
- ISD is only meant for distributing ITC amongst **distinct persons** under **same PAN.**

When?

- **The Finance Act 2024** (Interim Budget) had introduced amendments related to the Input Service Distributor (ISD) under the Goods and Services Tax regime.
- **The Central Boards of Indirect Tax and Customs (CBIC),** vide Notification No. 16/2024-Central Tax dated 06 August 2024, the 1st April 2025, as the date on ISD shall come into force.
- **Now in Union Budget 2025-26,** Distribution of ITC on interstate supplies under reverse charge has now been proposed in ISD. This provision also comes into effect from 1st April 2025.
- So**,** now ISD is Mandatory from **1st April 2025.**

Why?

- In Cross Charge Mechanism, **ITC of goods and services** (including employee cost / internally generated service/ third party common services) are distributed in Normal tax invoice under regular registration and no specific frequency was there for distribution of common credit till 31st March 2025.

Process?

- Now in Input Service Distribution (ISD), separate ISD Registration is required and distribute **ITC of services, including RCM** to registered units under same PAN.
- **CGST, SGST and IGST** to be distributed Separately.
- ISD distribute **eligible and Ineligible ITC** separately.
- **Monthly** distribution mandatory.
- Distribution in **proportion of GST turnover** of the different branches.

- **ISD invoice** must be issued.
- This method ensures a fair allocation of tax credits, reflecting the actual usage of services across branches.

Registration

- The taxpayer required to distribute ITC under the ISD Mechanism will be required to register under clause (viii) of section 24, i.e., compulsory registration under GST as ISD by filing FORM GST REG -1.
- Registration for ISD is mandatory in the distribution of ITC related to common services, irrespective of the turnover limit.

Return filing

- Every ISD must file a return in FORM GSTR-6 containing details of invoices on which ITC is received and details of ISD invoices or ISD credit notes based on which ITC is distributed to branches.
- Details of Services received by ISD shall be available in FORM GSTR-6A, which can be reconciled before uploading purchase data in FORM GSTR-6.
- The input tax credit availed in a month shall be distributed in the same month The due date of filing **GSTR-6 is 13th** of succeeding month.
- Further, an ISD shall separately distribute both the amount of ineligible and eligible input tax credit.

Other Compliances

- Section 16(2) (aa) condition applies to ISD and ITC matching with GSTR-6A is mandatory.
- Distribution to be done in same month in which ITC is availed.
- E-invoice for ISD invoice to recipient units is not applicable.
- For correction of ITC distribution, credit note or ISD invoice must be issued.