

# *Input Service Distributor under GST*

*- Concept, Compliances &  
Implementation Strategies*

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# *Today's Coverage*

- Background of ISD provisions before the proposed amendment,
- Proposed changes in Legal provisions related to ISD,
- Analysis of changes due to amendments,
- Interplay between ISD and Cross Charge,
- Steps to be taken for implementation of the ISD mechanism,
- Compliances for ISD entity, Flow of ISD return, manner of distribution of ITC,
- Certain Issues in the implementation process

# ISD Timeline (At a glance)

## 50<sup>TH</sup> GST COUNCIL

ISD NOT YET  
MANDATORY



### INTRODUCTION OF GST LAW

INTRODUCTION OF  
ISD



### CIRCULAR 199/11/2023

CLARIFICATION ON  
TAXABILITY OF  
SERVICES -CROSS  
CHARGE V/S ISD



## 52<sup>ND</sup> GST COUNCIL

ISD TO BE MADE  
MANDATORY  
PROSPECTIVELY



### FINANCE ACT, 2024

ISD MADE  
MANDATORY IN  
CASE OF MULTIPLE  
REGISTRATION



# Meaning of ISD prior to amendment in Finance act, 2024

## ISD Definition as per Section 2(61) of CGST Act, 2017

- *“Input Service Distributor” means*
- *an 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 a prescribed document 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;*

*Further, Section 20 of the CGST Act, 2017 provides the manner of distribution of Credit by ISD.*

# Manner of distribution of ISD prior to amendment in Finance Act, 2024

- (1) *The Input Service Distributor shall distribute the credit of central tax 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 being distributed in such manner as may be prescribed.*
- (2) *The Input Service Distributor **may distribute** the credit subject to the following conditions, namely:*
  - a. the credit can be distributed to the recipients of credit against a document containing such details as may be prescribed;*
  - b. the amount of the credit distributed shall not exceed the amount of credit available for distribution;*
  - c. the credit of tax paid on input services **attributable to a recipient** of credit shall be distributed only to that recipient;*
  - d. the credit of tax paid on input services **attributable to more than one recipient of credit** shall be distributed amongst such recipients to whom the input service is attributable and such distribution shall be pro rata on the basis of the turnover in a State or turnover in a Union territory of such recipient, 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;*

# *Manner of distribution of ISD prior to amendment in Finance Act, 2024*

- e. the credit of tax paid on input services **attributable to all recipients** of credit shall be distributed amongst such recipients and such distribution shall be pro rata on the basis of the turnover in a State or turnover in a Union territory 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.*

*Explanation.--For the purposes of this section,--  
the --relevant period shall be--*

- i. if the recipients of credit have turnover in their States or Union territories in the financial year preceding the year during which credit is to be distributed, the said financial year; or*
- i. if some or all recipients of the credit do not have any turnover in their States or Union territories 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;*

# *Manner of distribution of ISD prior to amendment in Finance Act, 2024*

- b. the expression “**recipient of credit**” means the supplier of goods or services or both having the same Permanent Account Number as that of the Input Service Distributor;*
  
- c. the term “**turnover**”, in relation to any registered person engaged in the supply of taxable goods as well as goods not taxable under this Act, means the value of turnover, reduced by the amount of any duty or tax levied under [entries 84 and 92A] of List I of the Seventh Schedule to the Constitution and entries 51 and 54 of List II of the said Schedule.*

# *ISD - Issues prior to Budget 2024 proposal*

- Above Current ISD provisions do not mandate distribution of ITC through ISD.
- Thus, businesses often opted for doing cross charge as an option for the ISD mechanism. However, since the cross charge was not defined in Law, there were dispute w.r.t. ISD vs Cross Charge.
- Many other taxpayers have not complied with ISD concept on the common third party expenditures incurred such as audit fees, IT accounting expenses incurred centrally [such as at Head office/HO].
- Confusion whether credit on common expenses **has to be compulsorily distributed through ISD route or not?** Section 20(2) of the CGST Act, 2017 provides that ITC through ISD “may” be distributed subject to the following conditions whereas Section 20(1) of the CGST Act, 2017 provides that the ISD shall distribute the ITC of CGST as CGST or vice versa.
- **Whether if credit was availed at HO would be recovered by dept citing no nexus?**



# *Input Service Distributor - Proposal*

- 50<sup>th</sup> GST Council meeting recommended to clarify through a circular no. 199 as under:-
  - ✓ ISD mechanism is not mandatory for distribution of ITC on common input services procured from third parties,
  - ✓ To clarify issues regarding taxability of **internally generated services** provided by one distinct person to another distinct person [branch offices of same entity].

# *Cross charge vs ISD - Internally Generated Services*

## **Internally Generated Services:**

- No specific internally generated services but cross charge done – Can it be done for third-party procured services?
- Internally generated services by one BO to another BO or to head office - within India cross-charged or not?
- Internally generated services provided to related parties where the related party is entitled to ITC-rule 28 GST rules.
- Internally generated services provided to related parties where the related party is not entitled to ITC-Rule 28 GST rules.

# *Cross charge vs ISD - Third Party Procured Services*

## **Third-party procured services:**

- ITC has been distributed through cross-charge and the recipient is eligible for full ITC,
- ITC has been distributed through cross-charge and the recipient is not eligible for full ITC,
- ITC on third-party services pertaining to BO (proportionately or fully) availed at HO but no cross charge or ISD distribution done.

# Cross charge under GST

- **Schedule-I:** 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
- **Schedule III:** Activities or transactions specified in Schedule III is treated neither as supply of goods nor as supply of service. Schedule III includes **services by an employee to an employer in course of furtherance of business.**
- **AAR:** Columbia Asia Pvt Ltd [2018 – TIOL – 113 – AAR – GST and upheld by the appellate authority in [2018-TIOL-31-AAAR-GST] - *Regarding the second issue related to the activities performed by the employees at the corporate office in the course of or in relation to employment, the employees employed in the Corporate Office are providing services to the Corporate Office and hence there is an employee-employer relationship only in the IMO. **The other offices are distinct persons and therefore the employees in the IMO have no employer employee relationship with other offices.***

# Clarification vide Circular 199/11/2023

- CBIC clarified on various aspects surrounding the issue vide Circular 199/11/2023-GST dated 17<sup>th</sup> July 2023.
- **Scenario 1: Services procured from a third party**
  - The HO would have an option to distribute such ITC either through cross charge or ISD mechanism.
  - Further, the present provisions do not mandate the usage of ISD mechanism.
  - In case, ISD is opted, then ISD registration is mandatory in terms of Section 24 (viii) of the CGST Act.
  - In both the above mechanism, i.e., ISD and Cross Charge, the ITC could be distributed or transferred only if such services are attributable to the concerned BO's.
  - For the above option, it was clarified that BO is eligible for Full ITC: the value of supply declared in the invoice will be the final value whether employee cost, has been considered or not.
  - If BO is not eligible for Full credit - the Value of supply per valuation rules to be taken excluding employee cost

# *Clarification vide Circular 199/11/2023*

## **Scenario 2: In respect of Internally Generated Services, Where HO is providing certain services to BOs.**

- It is clarified that the value of supply of service made by the registered person to a distinct person i.e., HO to BO will be determined as per rule 28 of CGST rules read with Section 15(4) of CGST Act, 2017 accordingly.
- **If BO is eligible for Full ITC:** the value of supply declared in the invoice will be the final value whether employee cost, has been considered or not.
- **If BO is not eligible for Full credit-** the Value of supply per valuation rules is to be taken excluding employee cost.

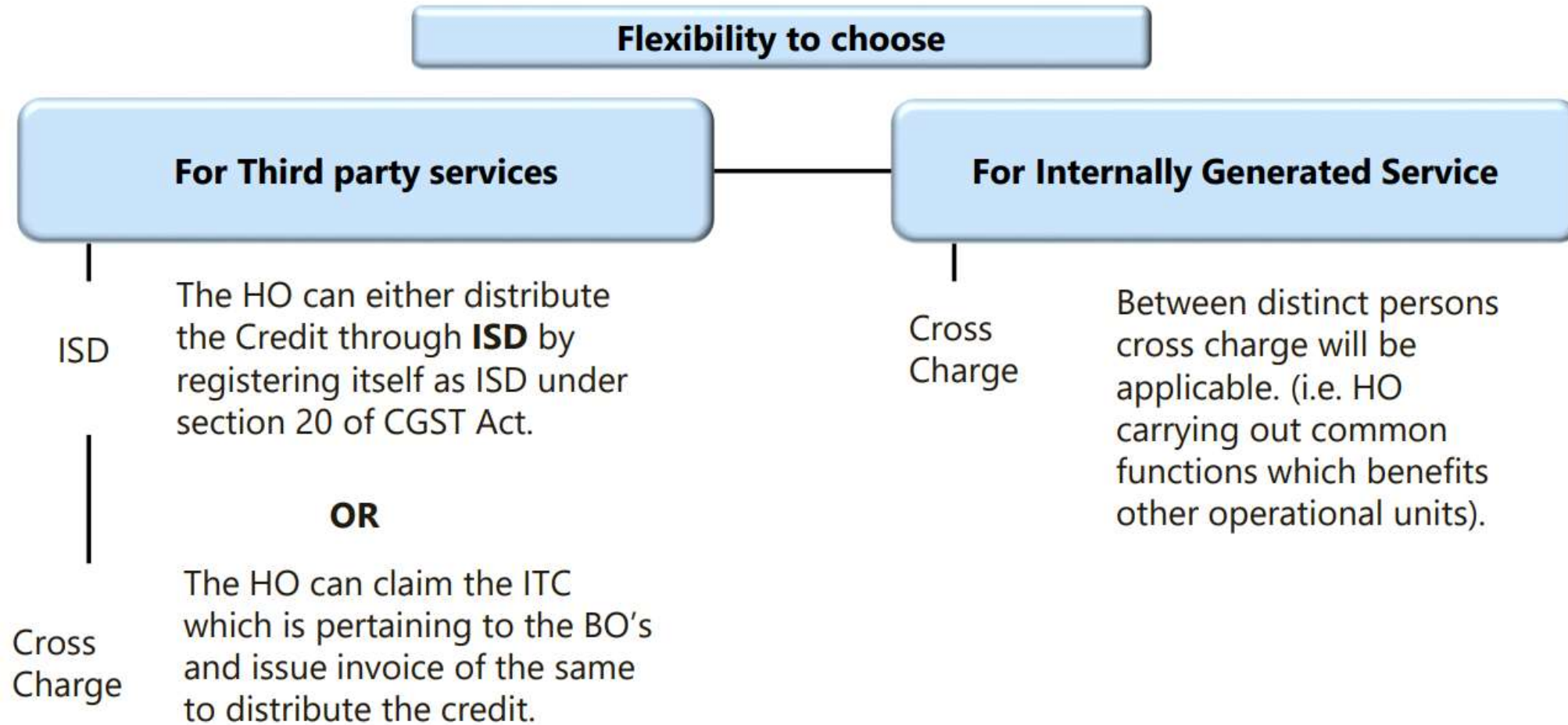
# *Cross charge vs ISD – Key Takeaways*

## **Key Take-Aways from the above scenarios:**

- Taxpayers can follow the methodology of ISD, Cross Charge, or both, at their option,
- The law presently does not mandate ISD mechanism for the distribution of common ITC,
- There is no challenge in availing of common ITC such as advertising/audit fee by the HO, as the bill to – ship to the model allows, availing of ITC by the bill to party, by deeming it as a recipient of service. [Ref Section 16(2)(b) of the CGST Act].
- However, an invoice could be issued/ ITC could be distributed to the recipient BO's if such common expenses are attributable to them.
- Vide Rule 28 ibid in case of revenue-neutral situations, where full ITC is available.
- In such situations, even if no invoice is issued, the value would be accepted as “NIL”. These may lead to the closure of the bulk of cases, which would have otherwise traveled to the High Courts.

# ISD v/s Cross charge

- Current valuation scenario





# *Cross charge vs ISD – Way Forward (for future)*

## **Way Forward (for future):**

- The GST Council during its meeting had also recommended that the amendments would be done in due course to make ISD mechanism as a mandatory one for distribution of ITC. However, the same would only be done for third party procurements, including those taxable under the RCM.
- In future scope of cross charge would get restricted to internally generated services only.
- All the third-party service procurements would get distributed through the ISD route, to the respective BO's.
- Further, for goods the methodology of stock transfer would continue on as is basis.
- Further, discussion on the proposals in Budget 2024 for changes in ISD mechanism under GST is discussed in next slide.

# Meaning of Input Service Distributor as amended vide Finance Act, 2024

Based on the recommendation of the 52<sup>nd</sup> GST Council, the government has proposed changes in law regarding the ISD through Financial Budget 2024. The proposals in Budget 2024 provide for changes in ISD mechanism under GST in two places.

## **First change:**

- The definition of Input Service Distributor (ISD) under Section 2(61) substituted as a result of which the scope has been expanded to include offices that receive tax invoices for input services for or on behalf of persons having same PAN, including those services liable to tax under Reverse Charge Mechanisms specified in sections 9(3) and 9(4) of CGST Act .

## **Proposed new definition:**

- *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;'*

# *Meaning of Input Service Distributor as amended vide Finance Act, 2024*

## **Analysis of the first change:**

- Based on the above proposal it could be inferred that where invoices are received by the ISD on which RCM is applicable, as a way forward the distinct person in the state where ISD registration is taken would be required to discharge GST on RCM and raise a self-invoice wherever necessary.
- Whether invoice to be raised by the distinct person on the ISD for distribution??

## **Second change:**

- The second amendment pertains to **Section 20 which now makes it mandatory** for an office which receives tax invoice for input services for and on behalf of other persons having same PAN to register as ISD and distribute credit. Proposed Section 20 of CGST Act, 2017.

# Manner of distribution of ISD as amended vide Finance Act, 2024

## **Proposed new law:**

*“20. (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-sections (3) or (4) of Section 9, for or on behalf of a distinct person or distinct persons as specified in section 25, **shall be required** to be registered as Input Service Distributor under clause (viii) of section 24 of this Act 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 (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. (Prescribed Rule 39 of CGST rules,2017)*

*(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 being distributed in such manner as may be prescribed.”*

# *Impact of Proposed changes in the 2024 Budget*

## **Analysis of the second change:**

- This proposed change in the law regarding ISD is being made in consequence to the recommendation made in the 52nd GST Council Meeting. Accordingly, this proposed amendment would make distribution of credits on input service invoices received by the Head Office mandatory by way of ISD mechanism.
- Currently, the ISD mechanism is optional. Thus, once the said amendments are made effective, the option for cross charging for input services invoiced from third parties would no longer be available.
- Thereby, if the ITC is distributed by cross charging, the same would be questioned by the department way forward.
- However, cross charging to the extent of internally generated services would continue.
- Point 1 of Circular No. 199/11/2023-GST dated 17th July, 2023 which provided option of either cross charge or ISD mechanism cease to have effect.

# *Impact of Proposed changes in the 2024 Budget*

## **Impact on Trade and Industry :**

- Cross charge would apply instead of ISD only in the case of services provided by one office to another being distinct persons i.e., having separate GST registrations under a common PAN (internally generated services) and not for services received from third parties.'
- Further, where RCM credit needs to be distributed, it is to be ensured that the ISD receives the invoice from the supplier with GSTIN of the ISD.

# Summary of Changes due to amendments

- Below is the Summary table based on the nature of services received by ISD from third-party Vendors or internally generated Services.

Nature of Services	Before Amendment	After Amendment
Third Party vendor invoice for Common input Services	ISD or Cross Charge Optional	Mandatory through ISD route
RCM liability of common service	<ul style="list-style-type: none"> <li>➤ Option 1 through Cross Charge(HO/BO to Pay RCM on common Service and distribute ITC)</li> <li>➤ Option 2: ISD route(HO/BO to Pay RCM on common Service and raise invoice to ISD then ISD to distribute</li> </ul>	<ul style="list-style-type: none"> <li>➤ HO/BO to Pay RCM on common Service</li> <li>➤ Raise invoice to ISD</li> <li>➤ ISD to distribute ITC</li> </ul>
Ineligible ITC on common input service as per Section 17(5)	<p>Option 1 Disallow at head office and include in valuation for cross charge cost.</p> <p>Option 2: Distribute as ineligible ITC through ISD</p>	Distribute as ineligible ITC through ISD
Employees and management cost (internally generated service)	No Cross Charge (Clarified in Circular 199/11/2023 )	No Cross Charge
Any Input /capital goods	No ISD <b>Included in cross Charge valuation?</b>	No ISD <b>Included in cross Charge valuation?</b>
Common input service for related party and distinct person	ISD or cross Charge in case of distinct persons and in case of related party cross charge	ISD to distinct person and Cross Charge to related party.

# Mechanism of ITC Distribution under ISD

- Matrix For distribution of input tax credit

Input Charged by Vendor	Input Claim in ISD State	Branch State same as ISD state	Branch state other than ISD State
<b>Eligible ITC</b>			
IGST	IGST	IGST	IGST
CGST	CGST	CGST	IGST
SGST/UTGST	SGST/UTGST	SGST/UTGST	IGST
<b>Ineligible ITC(17(5))</b>			
IGST	IGST	IGST	IGST
CGST	CGST	CGST	IGST
SGST/UTGST	SGST/UTGST	SGST/UTGST	IGST



# *Manner of raising Invoices by ISD*

**ISD Invoice for distribution of ITC other than RCM.** Rule 54(1) of CGST rules prescribed the relevant prerequisites of ISD invoice.

- GSTIN, Name, address of ISD.
- A separate ISD invoice number and date of its issue.
- Name, Address, GSTIN of recipient location.
- Amount of Tax distributed (CGST, SGST, IGST).
- **It needs to be noted that tax rate, taxable value, and invoice value are not to be required to be mentioned on the invoice.**
- Further, the monthly single invoice for eligible and ineligible credit to every recipient at the end of each month.
- In the case of eligible and ineligible credit all the fields are same except mention in description of eligible or ineligible credit and the reason for ineligibility.
- The tax head to be mentioned in the invoice will be clarified from the matrix given in the next slide for ISD ITC distribution.

# *Manner of raising Invoices by ISD*

**Invoices for distribution of common ITC on input service in case of RCM paid by HO and to be further distributed by ISD.** Rule 54(1A) of CGST rules prescribed the relevant prerequisites of issuing of invoice by a registered person to ISD in case of HO an ISD in the same state.

- Firstly, the HO/BO will pay the RCM liability. Claim ITC based on the Self Invoice/tax invoice.
- After that, HO/BO will issue the invoice to ISD as per rule 54(1A) with the details prescribed below.
- GSTIN, Name, and address, of the HO/BO having the same state code as of ISD state.
- Invoice Number and date of issue of invoice.
- GSTIN of supplier of common service, original invoice number of supplier.
- GSTIN, Name, address of ISD.
- Taxable Value, Rate, tax amount.
- Taxable must be the same as of value in common service invoice.
- After that, ISD will claim the ITC and distribute it as per invoice under rule 54(1). Discussed in the previous slide for FCM ITC transfer.

# *Actions for ISD compliance implementation*

- Take ISD registration through Form GST REG-01 and select the reason for obtaining registration as an Input Service distributor.
- Provide details of registration to third-party vendors who are providing common services.
- Maintain Reconciliation between invoices recorded in books of ISD and invoices reflected in GSTR 6A.
- Compute the ISD to be distributed based on the ITC received on the common services and identify the branch to which the ITC is to be distributed.
- Issue an Input Service Distributor invoice, as prescribed in sub-rule (1) of rule 54,
- File Monthly return in form **GSTR 06** by the 13<sup>th</sup> of next month for distribution of ITC.
- ITC distributed by the ISD in the form **GSTR 06** will be auto-populated in GSTR 2B for the claiming of ITC by the Distinct person i.e., Branches.
- Maintain reconciliation between ISD input as per GSTR 2B and ISD input recorded as per the books.

# *Steps to be taken for implementation of ISD mechanism*

It is succinctly clear that the new ISD mechanism mandatorily needs to be implemented. Hence, for proper implementation the following process needs to be followed:-

## **Step 1: Identify expenses to be routed through ISD registration:**

1. Derive the Trial Balance of the Company level and the trial Balance at the Branch level.
2. List out the common expenditure from the company-level trial balance.
3. Divide the above expenditure into third-party vendor service and other expenses.
4. Further, in the case of third-party vendor invoices – identify the possibility of whether those expenses can be separately invoiced to the branch itself.
5. After above analysis finalize the leftover third-party common expenditure that cannot be separated at the vendor level.
6. Divide the above list of expenses into eligible credit and ineligible credit, RCM expenditure.

# *Steps to be taken for implementation of ISD mechanism*

## **Step 2: Identify locations to which such expenses are attributable to :**

1. Based on the common expense **list identified in Step 1**: Identify the expense is pertains to one location bill to that location.
2. If expense pertains to one location ensure that the invoice is not billed to any other location.
3. If expenses pertain to more than one location ensure that the invoice is received at ISD number.

## **Step 3: Identify the vendors and communicate with them to update the ISD registration number.**

## **Step 4: Implement the ISD registration details and booking of ISD invoices etc. in the accounting system/software.**

## **Step 5: Provide appropriate training to the ground-level staff regarding the identification of common ITC, manner of distribution and appropriating the common ITC, invoicing, Filing of ISD returns, etc.**

# *The flow of Monthly ISD return GSTR 6*

- Step 1: Download the monthly auto-populated return GSTR 6A. Which is auto-populated based on the invoices filed by the supplier in their GSTR 1. The tentative date on the 12<sup>th</sup> of next month for current month.
- Step 2: Reconcile the invoice booked in the current month with the current month GSTR 6A.
- Step 3: Reconcile the mismatched invoices of the previous month with the current month's GSTR 6A. Upon matching take the invoices in computation.
- Step 4: Eliminate the remaining mismatch entries from the computation of the current month ITC.
- Step 5: On the reconciled invoice list in the current month. Divide the invoices into eligible and ineligible credits.
- Step 6: Compute the ITC distribution based on the mechanism given in rule 39 of CGST rule, 2017.

# *The flow of Monthly ISD return GSTR 6*

- Step 7: Raise the ISD invoice with a consecutive serial number on the last date of the month.
- Step 8: Report the identified invoices in step 5 in GSTR 6 of the current month in the respective table of form.
- Step 9: Report the details of the ISD invoice (eligible and ineligible) in the distribution table of Form GSTR 6.
- Step 10: Invoice reported for ITC available for distribution and ITC distributed (eligible or ineligible ) should be equal.
- Step 11: Click on the compute ITC and file the return for the month.
- Step 12: Maintain the YTD reconciliation file between invoice booked and GSTR 6A.

# Manner of Recovery in case wrong distribution of ITC by ISD

- **Section 21 of CGST Act, 2017** explains the manner and procedure for recovery of wrong input tax credit distributed by the ISD.
- Where it is mentioned that in case ISD wrongly distributes excess ITC to the recipient then the excess credit shall be recovered from the recipient along with interest.
- Relevant extract of Section 21 of CGST Act, 2017: *“Where the Input Service Distributor distributes the credit in contravention of the provisions contained in section 20 resulting in excess distribution of credit to one or more recipients of credit, the excess credit so distributed shall be recovered from such recipients along with interest, and the provisions of section 73 or section 74, as the case may be, shall, mutatis mutandis, apply for determination of amount to be recovered.”*
- Further, Circular No. 71/45/2018-GST, dated 26th October 2018 has been issued by CBIC where it is clarified that:
  - ✓ The recipient who received excess credit from ISD may deposit voluntarily Excess amount in form DRC-03 along with **applicable interest and penalty**.
  - ✓ If not paid voluntarily by the recipient, the department may initiate proceedings under section 73 or 74, and form GST DRC-07 can also be issued by the tax officer.
  - ✓ **General penalty under section 122(1)(ix) of CGST Act, 2017 would also be applicable on ISD.**



# Summary of Above Provisions

Sr. No.	Nature of Transaction	Parameters	Existing Process	Process under ISD
1	Third Party Invoices which are common for one or more branches	Transactions liable for forward charge mechanism (FCM)	Cross charge is done from MH location on the basis of turnover for the month. Entire taxable value & taxes are cross-charged.	Merely GST component would be distributed among the branches whereby the ISD would act as a pass-through gateway.
		Transactions liable for reverse charge mechanism (RCM)	For common RCM services, the MH location would pay the RCM and cross charge the invoice to other locations.	Process given in Rule 54(1A) would be required to be followed whereby the regular registration in the state in which ISD is taken i.e., MH regular registration would pay the RCM and transfer the same to ISD for further distribution.
		Ineligible ITC (FCM)	At present the ITC on these transactions are not cross-charged to the branches and are consumed by MH state	The ineligible ITC would be required to be distributed among the branches on the basis of the turnover

# Summary of Above Provisions

Sr. No.	Nature of Transaction	Parameters	Existing Process	Process under ISD
1	Third Party Invoices which are common for one or more branches	Ineligible ITC (RCM)	At present the tax is paid by the MH location & ITC on these transactions are not cross-charged to the branches and is consumed by the MH state	Process given in Rule 54(1A) would be required to be followed whereby the regular registration in the state in which ISD is taken i.e., MH regular registration would pay the RCM and transfer the same to ISD for further distribution. The said ITC would be required to first fully avail in MH state and then to be distributed. The receiving branches would avail & reverse the said credit.
		Documentation	Tax invoice as per Section 31	Invoice as per Rule 54 & 54(1A). One invoice for eligible transaction & another for ineligible transaction would be required for each state

# Summary of Above Provisions

Sr. No.	Nature of Transaction	Parameters	Existing Process	Process under ISD
1	Third Party Invoices which are common for one or more branches	Disclosure	Would be disclosed as normal supply in GSTR 1 & tax would be paid in GSTR 3B	<p>ISD invoice to be reported in GSTR 6 and the said return is to be filed by 13<sup>th</sup> of the next month.</p> <p>The ITC of the ISD invoice would be reflected in GSTR 2B and is to be claimed in GSTR 3B by the branches.</p>

# Summary of Above Provisions

Sr. No.	Nature of Transaction	Parameters	Existing Process	Process under ISD
2	Internally Generated Services	Tax treatment	Cross-charge is done on the monthly basis through monthly returns.	<p>As provided in Circular 199/11/2023, the value of internally generated services can be nil if a full input tax credit is available to the recipients.</p> <p>Alternatively, if BSID decides to cross-charge certain common expenses then such expenses would exclude the third party common service invoices and the employee cost. The remaining expenses would be cross-charged to the recipients.</p> <p>We shall suggest entering into an MoU between HO &amp; Branches.</p>

# Comparison of expenses Covered in ISD or Cross Charge

- To identify that we need to bifurcate the common expenditure that externally procured expenses that are not directly attributable to branches and internally generated service.

Expenses	Category (Externally /internally)	ISD	Cross Charge	Remarks
Internal Audit services, Statutory/ Tax Audit Service,	External	Yes	No	
Legal Service, Consultancy Fees Professional service	External	Yes	No	
Director Sitting Fees(RCM)	External	Yes	No	
Payroll processing service, HR and admin services	Internal	Yes/No	No/Yes	Except salary cost
Bank Charges	External	Yes	No	
Use of Capital Goods(Server)	Internal	No	Yes	
Advertisement , marketing , Business Promotion	External/Internal	Yes/No	No/Yes	
Ineligible ITC under section 17(5)	External	Yes	No	
Head office Rent	External	Yes/No	No/Yes	

# Comparison of expenses covered in ISD

Sr. No.	Nature of Transaction	Tentative amount in GL	Process under ISD
1	<p>Outsourcing Expenses i.e., Human Resource Outsourcing, Admin outsourcing &amp; Finance – 630003, and; Recruitment Expenses i.e., Background Verification, hotel expenses, Other professional, technical– 624016</p>	<p>520.06 lacs &amp; 35.56 lacs</p>	<p>Outsourcing &amp; Recruitment Expenses pertaining to-</p> <p>1) HO for finance team &amp; support staff - It shall be commonly distributed among all branches.</p> <p>2) Plants situated at Maharashtra - The employees specifically working at respective plants shall be specifically charged to that plant.</p> <p>3) Other branches - The specific employees working at specific branches shall be charged to the specific location, unless they are working for other branches then it shall be charged as common.</p> <p>Further in case of support services provided for payroll processing by Pune HO shall be commonly distributed among all the locations.</p>

# Comparison of expenses covered in ISD

Sr. No.	Nature of Transaction	Process under ISD
2	Freight RCM Services - 202080, 612025, 133299	Freight expenses would largely be specific as they can be identified as to the specific branch/ state for which they are incurred.
3	Advertisement Expenses such as T-shirts, License fees, Hoardings, Conference hall marketing, etc.	Generally, advertising expenses would be common as they would be incurred for promoting the business of the entity as a whole, however, if the advertisement expense is for a particular type of goods/ services that are only dealt with at the specific location, then the same needs to attributed only to such locations.
4	AMC Charges - electrical peripherals & IT AMC - 133299	All electrical-related expenses installed at respective location shall be specific for the location incurred, however in case of support services like design, development or software services if incurred commonly for entire organization then it shall be distributed among all locations.
5	Research and training service excellence	Research expenses shall be commonly distributed among all the branches as they are incurred generally for organization as a whole.

# Comparison of expenses covered in ISD

Sr. No.	Nature of Transaction	Process under ISD
6	Legal and professional expenses – 722005	Litigation pertaining to Indirect taxes – mostly specific Litigation pertaining to Direct taxes – mostly common Litigation pertaining to Statutory audit – mostly common Monthly retainers providing services to all locations - common Litigation pertaining to IPR - common Litigation pertaining to immovable & sales related – mostly specific Professional fees to employee related consultant - common Internal audit for all branches - common Stock audit for specific branch - specific Arbitration expenses - common
7	Expatriate Expenses	Expatriate expenses incurred for management personnel-It shall generally be common unless wherein foreign engineers visit specific plant level it shall be specific.
8	Hotel & Travelling	Such kind of expenses should be treated on the basis of purpose of such travel or accommodation expenses. If such expenses is incurred for or on behalf of multiple branches then shall be booked as common.



# Comparison of expenses covered in ISD

Sr. No.	Nature of Transaction	Tentative amount in GL	Process under ISD
9	Insurance	14.34 lacs	Cyber Insurance - common for all branches as they are incurred for the protection of the operations in general, however in case of and stock insurance or general insurance taken at respective branches in which the property or assets are in the particular states are only insured then shall be treated as specific.
10	Membership & Expenses	62.17 lacs	Membership expenses shall be majorly common unless it pertain to a specific location statewide. Further club membership is disallowed as per section 17(5) thus disallowed ITC also needs to be distributed among all locations.
11	HO Rent	110.40 lacs	Rent for a specific branch shall be specific, however if HO incurs rent expenses, then on a case-to-case basis it must be seen whether it has any linkage with that of the branches and accordingly a decision on the distribution or otherwise needs to be taken.

# Comparison of expenses covered in ISD

Sr. No.	Nature of Transaction	Tentative amount in GL	Process under ISD
13	Training Expenses and related hotel stay & transport	200.37 lacs	Training expenses will always be common unless they relate to specific branch (fire safety or production related training) and any ancillary expenses like travelling and printing will have the same effect as the principal service of training.

# Comparison of expenses covered in ISD (Ineligible)

Sr. No.	Nature of Transaction	Process under ISD
1	Health, accidental & other than non-life insurance policies, Corporate Social Responsibility and club memberships etc.	These expenses are ineligible. However, these expenses are to be distributed among the branches. This is because the GST law is a destination-based consumption tax therefore the state in which the said expense is reversed would get the share of the revenue. Therefore, it is important to reverse the ineligible ITC in respective states properly.
2	Canteen charges, Repairs & Maintenance at plant,	These expenses are ineligible. However, should be booked at specific plant level profit & loss account.

# Certain issues & implementation mechanism

- Whether ISD is mandatory for FY 2023-24?
- How the RCM payments be routed – What if HO location does not have any manufacturing plant or service supplying unit??
- Impact of 16(2)(aa) on ISD ITC - Reconciliation of Form 6A mandatory? 2A/2B vis-à-vis 6A? Static or Dynamic? Permanent/ temporary reversals?
- If a particular branch is no more supplying the goods or services, whether still the distribution is needed to such branch also? – pre-amendment term stating '*which are operational during the current year*'.
- How Time of Supply provisions impact the billing for IGS cross charge transactions?
- ISD Registration to be at HO? or a Major Manufacturing plant or both? Regional office can also be registered as ISD – Jaypee Rewa Plant - 2007 (218) ELT 576 (Delhi - Trib.)
- ISD implications and IGS applicability in case of centralized or decentralized billing??

# *Certain issues & implementation mechanism*

- What if a common bill is received towards the related persons in a group company having distinct persons – Bill received in ISD regn?? Or Bill received in regular GSTIN??
- Whether there would be change in the valuation of IGS cross charge where the third party element is already distributed through ISD?
- Implication in case of common expenses in Events/ Hotel Accommodations/ Rentals or other immovable property related services taken in the ISD office for all the suppliers.
- Fate of the HO expenses? Rent, Security, Housekeeping? Attributable to specific state or common?
- Whether attributability-based distribution is still relevant or any other new mechanism is going to be prescribed? What if certain common services have different cost drivers & distribution based on turnover basis is not correct. For ex: Cost Apportionment based on Employees Head count or some other basis.
- Distribution towards exempt supply turnover in HO itself viz., Interest on loan and other incomes??

# *Certain issues & implementation mechanism*

- Distribution of ineligible credits required? As per rule 39, it is to be separately distributed.
- What is the periodicity of distribution – monthly/ quarterly? What if the same is breached?
- Whether distribution required to be made to the distinct persons who are making the exempt supplies, what if HO also possesses certain specific exempt supplies??
- Whether the provisions of E-invoicing are applicable to the ISD invoice? – No as per FAQ dated 11.11.2020
- What happens if the supplier issues a credit note after the distribution of the credits – In the same ratio as that of the original invoice, to be adjusted in the month of CN and if negative, it gets added as an outward tax liability in the hands of the recipient.

# *Certain issues & implementation mechanism*

- Jurisdiction of the regular registration & ISD registration? Needs to be same?
- Whether there would be a separate audit/ investigation/ scrutiny for ISD registration. Also, who shall be the proper officer for ISD registration?.
- Whether the distribution mechanism to be based on previous years turnover or would there be any change in the same.
- How to deal with incorrect distribution of credit subsequently noted viz., Short distribution, excess distribution etc. – Circular 71/45/2018 - GST
- Late Fees – Rs. 25/- per day per Act – N/N -7/2018-CT

# *Certain issues & implementation mechanism*

- Reversal of common ITC used towards taxable and exempt - Rule 42/43 compliance
- Reversal of credits on account of delay in payment to vendors beyond 180 days - Rule 37.
- How to incorporate a nexus of input service with concerned GST Number in the course of accounting themselves.
- Mechanism of distribution of credits to SEZ.
- Overlapping the due dates with QRMP scheme.
- Changes needed in the agreement's before the new provisions are implemented



# Action Plan

- **GL Creation** -New GL's need to be created under ISD Registration being output ISD , input ISD and net ISD ledgers wherein at the end of each month the net ISD ledger needs to be nullified after disbursing the credit and liability.
- **Distribution of all ITC whether eligible or ineligible**-Under ISD all ITC whether eligible or not or in case of blocked credit , first needs to be distributed among all the respective BO's and then according to the eligibility criteria laid u/s 16 of the CGST Act,2017 needs to be enacted.
- **Need to take a new registration under ISD**-A separate registration needs to be taken for ISD compliance.
- **Identification and communication to common vendors**-We will need to first identify vendors providing common services and accordingly communicate to them so that invoice is rightly raised on ISD number.

# Action Plan

- **Monthly returns** - There will be a need to file separate returns under ISD in Form GSTR-6 along-with existing returns.
- **RCM transactions** - At present there is no existing provision laying out the distribution of ISD for RCM related transactions, thus the HO will need to communicate with the vendors accordingly and raise the invoice on HO, so that the HO can distribute the common RCM credit to respective BO's.
- **Training** - Requisite training will be needed to be given to the employees in this area.
- **IT changes** - We will need to undergo a lot of changes in IT like raising PO on ISD number, modifying the masters according to the new ISD GL created, new cost centre for common pool of ITC credit under ISD needs to be created.
- **Cut off date** - A cut off date is to be decided and the cut off procedures are required to be performed to ensure smooth transition

*Any Queries???*

**THANK YOU**



*For any clarification*  
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