

ISD Under GST – Amendments

Effective from 1st April 2025

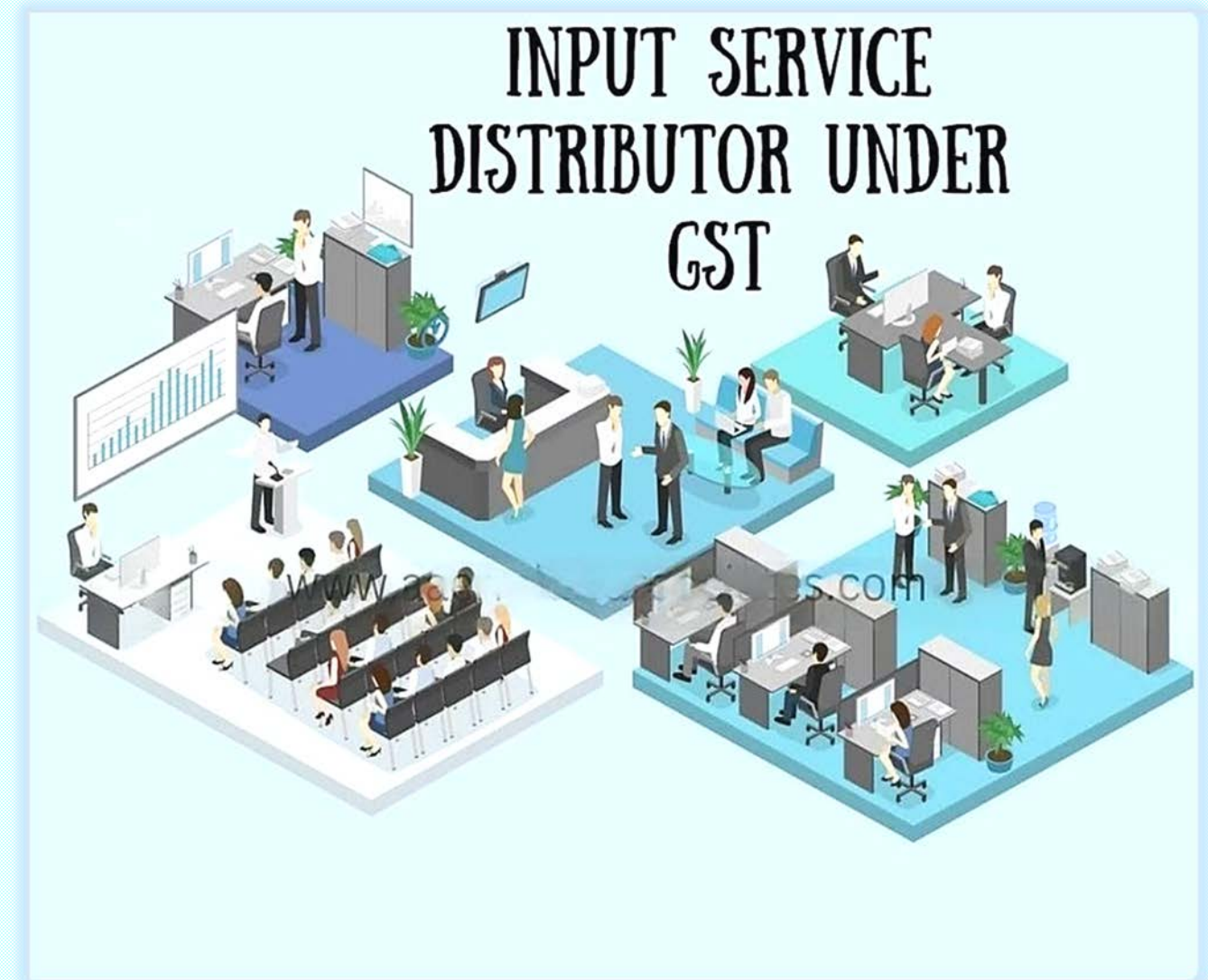
A Comparative Analysis of ISD Provisions Before and After Amendment

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Introduction

What is ISD?

ISD (Input Service Distributor) enables businesses to distribute Input Tax Credit (ITC) for common services.

Following taxpayers must comply with the new GST requirement:

- Companies with multiple GSTINs under one entity with one PAN
- Entities incurring common expenses at a Head Office or Branch Office.
- This applies only to service-related expenses, not goods.

Brief background of the issues involved

Many businesses operate with **multiple GST registrations across different states**, where an administrative office (Head Office or HO) manages centralized expenses, while branch offices handle localized costs.

Under GST, entity must register in each state where they supply goods or services. As per Section 25, these registrations are considered **distinct persons** under GST. This creates a situation where the HO incurs common expenses (e.g., marketing, logistics, legal, and statutory costs) that benefit multiple branches.

Since GST **invoices for these expenses are addressed to the HO**, it **avails Input Tax Credit (ITC)** on them. However, **state tax authorities have raised concerns** that ITC is being claimed in one state (HO), while the actual benefit is enjoyed in other states (branches). **This reduces cash tax payments** in the state where the HO is located, leading to revenue loss for state governments.

What's Changing?

To address this issue, new compliance requirements will be effective from **April 1, 2025**, for businesses with multiple GST registrations with common PAN incurring common service-related expenses.

Amendment Overview – Effective 1st April 2025

- 1

Mandatory ISD Registration

Businesses availing expenses which one for benefit of different distinct persons shared services must register as an ISD.
- 2

No Cross-Charging for common ITC

Common ITC distribution via cross-charging is discontinued.
- 3

Expanded Scope

Includes invoices under the Reverse Charge Mechanism (RCM), which are for Common benefits.
- 4

Increased Compliance

New requirements for ISD Registration, Invoices, filing GSTR-6, and ITC reconciliation.



Comparison – Before vs. After Amendment

Particulars	Before Amendment (Till 31st March 2025)	After Amendment (From 1st April 2025)
Definition (Sec 2(61))	ISD was optional	ISD registration is mandatory
ITC Distribution (Sec 20)	ITC could be distributed via cross-charging or ISD	ITC must be distributed only through ISD
Scope	Limited to tax invoices from vendors under forward charges	Includes invoices under RCM [Sec 9(3) & 9(4)]
Applicability	Businesses had a choice to register as ISD	Businesses must register if common ITC received
Compliance	No strict mandate; businesses could avoid ISD registration and use cross-invoicing.	Businesses must register ISD, issue ISD invoices, file ISD returns (GSTR-6), and reconcile ITC distribution.
Impact on Multi-Location Businesses	Could allocate ITC via cross-charging, reducing compliance complexity.	Must follow a structured ISD approach, impacting ITC allocation strategies and GST returns.

Key Impacts on Businesses

Mandatory ISD Registration

Required before 1st April 2025.

No Cross-Charging for Common Expenses

Businesses must use the ISD mechanism.

Cross-Charging for Direct Service

Cross charges continue for **Direct service** rendered by one distinct person to others or ISD to other distinct person

Higher Compliance Burden

Issuing ISD invoices, filing GSTR-6, and reconciling ITC.

GST Planning Required

Strategic planning for ISD compliance is essential.



A. Mandatory Implementation of ISD from April 1, 2025

To address concerns regarding the allocation of **Input Tax Credit (ITC)** across multiple GST registrations, the **GST law has been amended to make the Input Service Distributor (ISD) mechanism mandatory** from **April 1, 2025**.

This update aims to clarify the concept, compliance requirements, and simplify the issue for taxpayers.

B. Cross Charge vs. Input Service Distributor (ISD)

1. Cross Charge :- Previously, businesses used a **Cross Charge** mechanism, where the **Head Office (HO) raised invoices** to branch offices for services received from vendors. This allowed ITC to be transferred from the HO to the relevant branches. Since both the HO and branches are treated as **distinct persons** under GST, this was done by issuing **tax invoices** between them.

2. Input Service Distributor (ISD) :- An alternative method to transfer ITC within the same PAN is through the **ISD mechanism**. Under ISD, a **separate ISD GSTIN** avails ITC on common input services and then **distributes it to the relevant branches** using an **ISD invoice**.

C. Higher Compliance Burden.

- ISD must issue prescribed ISD invoices for ITC distribution. Businesses can no longer distribute ITC through tax invoices (cross-charging) for common Expenses.
- ISD must file monthly GSTR-6 returns to report ITC distribution. The ITC must match invoices from service providers, making proper tracking and reconciliation necessary.

D. GST Planning Required

- Classify all common input services and corresponding vendors determine which expenses need to be distributed via ISD.
- Inform concerned vendors to raise their invoices on registration number of ISD and not on regular Registration Number.
- Monitor vendor invoices raised on ISD Registration to ensure correct ITC credit is received before distribution.
- Accumulate all ITC in GSTR 6A of ISD Registration and distribute the same to all Distinct Person by raising one Invoice in a month to all distinctperon in prescribed format.
- Proper Documentation for ITC distribution to avoid disputes during GST audits.
- Modify ERP/accounting systems to generate ISD invoices as per GST rules.
- Ensure timely filing of GSTR-6 to avoid penalties and ensure seamless ITC flow to distinct person.
- Reconcile ITC distributed via ISD with books of accounts and GST returns (GSTR-2A / 2B).



Action Plan for Businesses



Review GST Framework

Assess the impact of ISD amendments on your business.



Apply for ISD Registration

Register before 1st April 2025.



Update Systems

Modify internal accounting and ERP systems.



Train Teams

Educate finance and compliance teams on ISD procedures.

Issue	Action Required
Registration as ISD	<p>Any taxpayer (under a single PAN) must register as an ISD (Head Office - HO) if all of the following conditions are met:</p> <ul style="list-style-type: none">a. More than one GST registration.b. Registered in one or more states.c. Incurring common service expenses, with invoices received under one GSTIN.
Invoicing by Supplying Vendors	HO must instruct all vendors supplying common ITC-related services to raise invoices under the new ISD GSTIN . This is a crucial compliance requirement.
RCM-Related GST Payments	All COMMON Reverse Charge Mechanism (RCM) payments (e.g., sponsorship expenses) must be made in the HO GSTIN, not in the HO ISD GSTIN. (To be discuss in next slide separately)
ITC Reconciliation (GSTR 6A)	<p>Similar to GSTR 2A/2B for normal ITC, a new GSTR 6A will be available for ISD ITC reconciliation.</p> <p>When a vendor uploads an invoice in GSTR-1 under HO ISD GSTIN, it will reflect in GSTR 6A of HO ISD.</p>
Ratio for ITC Transfer by ISD (Existing GSTINs)	The turnover ratio of all GSTINs (under the same PAN, who are entitled to such credit) for the past financial year will be used for ITC distribution. For FY 2025-26 , the turnover ratio of FY 2024-25 will be considered.
Ratio for ITC Transfer by ISD (New GSTIN Added)	If a new state GSTIN is obtained in FY 2025-26 , the past year's turnover ratio will not apply . Instead, the turnover ratio of the last available quarter (before the credit distribution month) will be used.
Turnover Value for Ratio Calculation	The turnover value used for ITC ratio calculation must exclude GST components . (All types of Turnover are to considered)

RCM Related GST Payments by HO for Common Expenses

Handling RCM Transactions for Common Expenses

Process for GST Payment Under RCM by HO

1. **Vendor Invoice:** Vendor raises a normal invoice (without GST) on the HO.
2. **ISD Invoice Preparation:** HO prepares an invoice for transferring the ITC to its ISD GSTIN.
3. **B2B Declaration:** HO declares this invoice in its GSTIN in the B2B section, increasing outward tax liability.
4. **GSTR-3B Filing:**
 1. Outward tax (including ISD tax) reported in Table 3.1 (a).
 2. RCM liability declared in Table 3.1 (d).
5. **ITC Availment:** HO avails ITC of the declared RCM liability.
6. **RCM Payment:** HO pays RCM liability in cash as per existing norms.
7. **ITC Distribution:** ISD avails the ITC and distributes it based on turnover ratio to eligible GSTINs through GSTR-6.

Invoice & Credit Note Requirements for ISD

Normal ISD Invoice / Credit Note Must Contain:

- ISD Name, GSTIN, Address
- Unique Serial Number (max 16 digits, unique for FY)
- Date of Issue
- Recipient Branch Name, GSTIN, Address
- Credit Amount
- Digital/Physical Signature

For RCM ITC Transfers from HO to ISD:

- HO's Name, GSTIN, Address
- Unique Serial Number
- Date of Issue
- Vendor's GSTIN & Original Invoice Details
- Recipient ISD's Name, GSTIN, Address
- Taxable Value, GST Rate & ITC Amount
- Signature

Method of Distribution of ITC by ISD

- 1. **Monthly Distribution:** ITC to be distributed in the same month;
- 2. **ITC Cap:** Distribution shall not exceed the available ITC.
- 3. **Branch-Specific Expenses:** ITC for expenses exclusive to one branch shall be allocated only to that branch.
- 4. **Selective Branch Expenses:** If an expense benefits only specific branches, ITC will be distributed to them based on turnover ratio.
- 5. **Common Expenses:** ITC benefitting all branches is distributed on a pro-rata turnover basis.
- 6. **Eligible/Ineligible ITC:** ISD must distribute both eligible and ineligible ITC to relevant branches. The recipient branch must avail and then reverse ineligible ITC if required.

7. Formula for ITC Distribution: $C1 = (t1 / T) \times C$ <i>C = Total credit to be distributed</i> <i>t1 = Turnover of the branch</i> <i>T = Aggregate turnover of all relevant branches</i>	8. Tax Distribution Rules: <table><tr><th>A. Distinct person in Same State</th><th>B. Distinct person in Other State</th></tr><tr><td>a. IGST as IGST</td><td>a. IGST as IGST</td></tr><tr><td>b. CGST as CGST</td><td>b. CGST as IGST</td></tr><tr><td>c. UTGST / SGST as UTGST as UTGST</td><td>c. UTGST / SGST as IGST</td></tr></table>	A. Distinct person in Same State	B. Distinct person in Other State	a. IGST as IGST	a. IGST as IGST	b. CGST as CGST	b. CGST as IGST	c. UTGST / SGST as UTGST as UTGST	c. UTGST / SGST as IGST
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- 9. **ISD Documentation:** ISD must issue ISD invoices for ITC transfers and file GSTR-6 before the 13th of the next month.
- 10. **Credit & Debit Notes:** Vendor-issued credit/debit notes must be proportionally transferred to branches via ISD credit/debit notes.

Example: Input Tax Credit (ITC) Utilization by Input Service Distributor (ISD)

The Corporate office of ABC Ltd., is at Maharashtra, with its business locations of selling and servicing of goods at Maharashtra, Gujarat, and Bangalore. Head Office (ISD) in Maharashtra has common ITC that needs to be distributed to branches based on their turnover ratio Turnover ratio of Maharashtra HO 40%, Gujarat Branch 30% and Bangalore Barach 30%.

Maharashtra branch have CGST, SGST and IGST outward distribution utilizing CGST, SGST, and IGST for settlement, where as Gujarat and Bangalore branches have only IGST outward distribution utilizing CGST, SGST, and IGST for settlement.

Common ITC Credit Available in ISD in the month of April 2025 is CGST Rs.60,000, SGST Rs.60,000 & IGST Rs.1,40,000/-

Input Service Distribution for the Month of April 2025.

Particulars	Turnover ratio FY 2024-25	Outward Distribution	CGST Utilisation	SGST Utilisation	IGST Utilisation
Common ITC Credit Available in ISD			60,000	60,000	1,40,000
Branch -1 Maharashtra	40				
CGST		24,000	24,000		
SSGT		24,000		24,000	
IGST		56,000			56,000
Branch -2 Gujarat	30				
IGST		78,000	18,000	18,000	42,000
Branch -3 Bangalore	30				
IGST		78,000	18,000	18,000	42,000
Total	100		60,000	60,000	1,40,000

List of Common Expenses for ISD Mechanism (Including RCM)

- Statutory Audit
- IT Infrastructure & Maintenance
- Advertisement, Sales Promotion & Branding
- AGM Expenses
- CSR Expenses
- Banking Charges
- Internet / Telephone (if used company-wide)
- Legal & Professional Fees (if common for all branches)
- Licensing & Royalty Fees
- Listing Fees
- Membership & Subscription Charges
- Rent, Hire, and Lease Expenses
- R&D Expenses
- Software & AMC Expenses
- Travel Expenses
- Website Handling Charges

List of Expenses which may fall under Cross Charge

- Directors Remuneration
- Accounts Staff Salaries
- Marketing Staff Salaries
- Admin Staff Salaries
- Any other Service provided by one Distinct person to the other.
- Any Fixed Asset of One Distinct Person used for other Distinct Person
- Any other Expenses which involve value addition by one distinct person.

ISD Registration Process & Documents Required for Registration

Sr. No.	Particulars	Steps & Documents Required
1	ISD Registration Process	<p>1.Online Validation of PAN – Verified with the CBDT database.</p> <p>2.OTP Verification – Mobile number & email are verified via OTP.</p> <p>3.Application Submission – Form GST REG-01 (Part B) must be submitted online.</p> <p>4.Verification & Approval – Signed digitally or via Electronic Verification Code (EVC).</p>
2	Basic Documents:	<p>PAN Card – Proprietor/Company/HUF/Partnership Firm/Authorized Signatory</p> <p>Aadhaar Card – Proprietor/Karta/Partner/Authorized Signatory</p> <p>Photographs – Proprietor/Partners/Karta/MD/CEO/Authorized Signatory</p>
3	Proof of Business Constitution:	<p>For Sole Proprietor: Shop License/Registration Certificate</p> <p>For Partnership Firms : Partnership Deed</p> <p>For Companies : Incorporation Certificate</p>
4	Proof of Principal Place of Business:	<p>If Owned – Latest Property Tax Receipt, Municipal Khata Copy, Electricity Bill</p> <p>If Rented/Leased – Valid Rent/Lease Agreement + Ownership Proof of Lessor</p> <p>If No Lease Agreement – Affidavit + Supporting Proof (Electricity Bill, Khata Copy)</p> <p>If Shared Premises – Consent Letter + Ownership Proof (Electricity Bill, Khata Copy)</p>
5	Bank Account Proof:	First Page of Passbook / Bank Statement / Canceled Cheque
6	Authorized Signatory Documents:	<p>Letter of Authorization (For Partnerships, Companies, HUF)</p> <p>DSC (Digital Signature Certificate) (For Companies, LLPs)</p>

Date of Invoices raised by ISD

1. **Standard Invoice Date:** ISD invoices to branches should be dated as the last day of the month for which ITC is being distributed. However, there is a practical difficulty since all the ITC that auto-populates in GSTR-6A becomes visible only on the 12th of the following month. As per law, ITC can be distributed only if it is available in GSTR-6A.
2. **Backdated Invoice Consideration:**
 - If the accounting software allows backdated invoices, the invoice can be issued on the last date of the month.
 - If backdated invoices are **not allowed**, then the invoice must be raised by the **12th of the following month**.
3. **Impact on ITC Claim:** If the invoice is raised after the 12th, ITC can only be claimed **one month later**, causing a delay in credit utilization.
4. **E-Invoicing Applicability:** E-Invoicing is **NOT applicable** to ISD invoices under the current GST Law.
5. **Annexure in the form of distribution:** Along with the ISD invoice, an **annexure** must be attached containing:
 - Invoice-wise breakup** of input services.
 - Branch-wise distribution** details of the ITC allocated.

Sr. No.	Vendor Name & GSTIN	Vendor Invoice No.	Date	Service Description	Taxable value	IGST Amount	CGST Amount	SGST Amount
1	ABC Pvt Ltd XXAABBC1234X1Z1	INV/001	05-Mar-25	Consulting Services	10,000	0	900	900

TAX INVOICE (Input Service Distributor)

(As per Rule 54(1) of CGST Rules, 2017)

Input Service Distributor (ISD):	[Company Name]
GSTIN of ISD:	[XXAABBC1234X1Z1]
Address:	[Registered Office Address]

Recipient Branch/Unit:	[Branch Name]
GSTIN of Recipient:	[XXAABBC1234X1Z2]
Address:	[Branch Address]

Invoice Number:	[ISD/2025/001]
Invoice Date:	[DD/MM/YYYY]
Place of Supply:	[State Name] - [State Code]

Details of ITC Distributed:

Sr. No.	Description of Input Service	Invoice wise ITC Distribution	Taxable Value (INR)	Total ITC Distributed (INR)	IGST/CGST/SGST Breakdown
1	[Service Description]	As Per Annexure	[XXXX]	[XXXX]	[XXXX] [XXXX] [XXXX]

Authorized Signatory
For [Company Name]

Declaration:

Note: This invoice is issued as per Rule 54(1) of the CGST Rules, 2017 for the distribution of Input Tax Credit (ITC) to eligible units. The recipient unit shall claim the ITC as per GSTR-6A auto-populated details.

Suggested Accounting Treatment for ISD in Books of Accounts of HO

1.No Separate Books of Accounts:

- ISD is **not required** to maintain separate books of accounts.

2.Separate Ledger Maintain in HO books:

- **Head Office (HO)** should maintain a separate **ISD Ledger** i.e. ISD Inward GST to track ITC distribution.
- **Branches** should also maintain a **separate ISD Credit Ledger** to record ITC received from HO.

3.ISD Expenses account should be maintained reference wise.

4.Accounting Entry at HO (ISD) and Branch: As mentioned in Table.

Summary of Accounting Entries, where ISD + HO Same Books			
Sr.No.	Particulars	(ISD) + Head Office MH (50%)	GUJ Branch (50%)
1	Expense Booked Local	Dr. ISD Expenses = 10,000 Dr ISD Inward CGST = 900 Dr ISD Inward SGST = 900 Cr TDS Payable = 1000 Cr. Vendor Accounts = 10800	-
2	Expense Booked Interstate	Dr. ISD Expense = 10,000 Dr ISD Inward IGST = 1800 Cr. TDS payable = 1000 Cr. Vendor Accounts = 10800	
3	Bank Payments to vendor After TDS@ 10%	Dr. Vendor Accounts = 21,600 Cr. Bank = 21,600	
4	Transfer Credit for Local Bill to HO & GUJ GSTR-6 Closing Entry (i.e. ITC Transferred)	Dr Branch GUJ = 900 Dr Input CGST = 450 Dr Input SGST = 450 Cr ISD Inward CGST = 900 Cr ISD Inward SGST = 900	Dr Input IGST = 900 Cr. HO = 900
5	Transfer Credit for Interstate Bill To HO & GUJ GSTR-6 Closing Entry (i.e. ITC Transferred)	Dr Branch GUJ = 900 Dr Input IGST = 900 Cr ISD Inward IGST = 1800	Dr Input IGST = 900 Cr. HO = 900
6	Close ISD Expense Account every month by transferring total balance to respective expenses account on last day of every month (To the extent of credit received in GSTR 6A) (Back Dated)	Dr Professional fees = 20,000 Cr ISD Expense = 20,000	

Salient Features of GSTR 6

- Input tax credit received for distribution to be matched with GTR-6A
- Out of the above , How much ITC is eligible & how much is ineligible
- No of Records , eligible ITC distributed, ineligible ITC distributed.
- Amendment made by any supplier in current period in relation to invoice raised on ISD in earlier period.
- Redistribution of ITC distributed Wrong Recipient/ wrong amount
- Late Fees

Conclusion & Next Steps

1

Prepare Early

Start preparing for the transition to avoid last-minute rush.

2

Ensure Compliance

Maintain proper documentation and comply with ITC distribution rules.

3

Seek Professional Assistance

Consult with experts for a smooth implementation.



Our Opinion :-

- 1. Lack of Revenue Augmentation:** ISD does not increase overall tax revenue to Government.
- 2. Increased Compliance Burden:** Unnecessary documentation and compliance complexity.
- 3. Subjectivity in ITC Allocation:** Determining whether an expense is “common” is prone to disputes.
- 4. Potential for Litigation:** Errors in ISD compliance may result in prolonged legal battles.
- 5. Policy Rollback Likely:** The inefficiency of this system may lead to eventual rollback in the future.

The ISD mechanism appears to add an unnecessary burden without clear advantages, and businesses may struggle with compliance due to its complexity.



How We Can Help

1

Registration

ISD registration support and guidance.

2

Compliance

Assistance with GSTR-6 filing and compliance.

3

Advisory

ITC distribution advisory and strategic planning.

4

Systems

Support for ERP and accounting system updates.

Thank you

We appreciate your time and attention.



Partnership

We value our partnerships.



Expertise

Reach out with your questions.



Success

Committed to your success.