# Input Service Distributor in GST

Input Service Distributor (ISD) means an office of the supplier of goods or services or both which receives tax invoices towards receipt of input services and issues a prescribed document for the purposes of distributing the credit of central tax (CGST), State tax (SGST)/ Union territory tax (UTGST) or integrated tax (IGST) paid on the said services to a supplier of taxable goods or services or both having same PAN as that of the ISD.

It is important to note that the ISD mechanism is meant only for distributing the credit on common invoices pertaining to input services only and not goods (inputs or capital goods). Companies may have their head office at one place and units at other places which may be registered separately. The Head Office would be procuring certain services which would be for common utilization of all units across the country. The bills for such expenses would be raised on the Head Office. But the Head Office itself would not be providing any output supply so as to utilize the credit which gets accumulated on account of such input services.

Since the common expenditure is meant for the business of all units, it is but natural that the credit of input services in respect of such common invoices should be apportioned between all the consuming units. ISD mechanism enables such proportionate distribution of credit of input services amongst all the consuming units.

The concept of ISD under GST is a legacy carried over from the Service Tax Regime. An ISD will have to compulsorily take a separate registration as such ISD and apply for the same in form GST REG-1. There is no threshold limit for registration for an ISD. The other locations may be registered separately. Since the services relate to other locations the corresponding credit should be transferred to such locations (having separate registrations) as the output services are being provided there.

For the purposes of distributing the input tax credit, an ISD has to issue an ISD invoice, as prescribed in rule 54(1) of the CGST Rules, 2017, clearly indicating in such invoice that it is issued only for distribution of input tax credit. The input tax credit available for distribution in a month shall be distributed in the same month and details furnished in FORM GSTR-6. Further, an ISD shall separately distribute both the amount of ineligible and eligible input tax credit. The input tax credit on account of central tax and State tax or UT tax in respect of recipient located in the same state shall be distributed as central tax and State tax or UT tax respectively. The input tax credit on account of central tax and State tax or UT tax shall, in respect of a recipient located in a State or Union territory other than that of the ISD, be distributed as integrated tax 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. The input tax credit on account of integrated tax shall be distributed as integrated tax.

Let’s take an example to understand this concept. The Corporate office of ABC Ltd., is at Bangalore, with its business locations of selling and servicing of goods at Bangalore, Chennai, Mumbai and Kolkata. Software license and maintenance is used at all the locations, but invoice for these services (indicating CGST and SGST) are received at Corporate Office. Since the software is used at all the four locations, the input tax credit of entire services cannot be claimed at Bangalore. The same has to be distributed to all the four locations. For that reason, the Bangalore Corporate office has to act as ISD to distribute the credit.

If the corporate office of ABC Ltd, an ISD situated in Bangalore receives invoices indicating Rs. 4 lakh of Central tax, Rs.4 lakhs of State tax and Rs. 7 lakh of integrated tax, it can distribute central tax, State tax as well as integrated tax of Rs. 15 lakh as credit of integrated tax amongst its locations at Bangalore, Chennai, Mumbai and Kolkata through an ISD invoice containing the amount of credit distributed.

So in what ratio will the credit be distributed by the ISD? The credit has to be distributed only to the unit to which the supply is directly attributable to. If input services are attributable to more than one recipient of credit, the distribution shall be in the pro-rata basis of turnover in the State/Union Territory. For example, if an ISD has 4 units across the country. However, if a particular input service pertains exclusively to only one unit and the bill is raised in the name of ISD, the ISD can distribute the credit only to that unit and not to other units. If the input services are common for all units, then it will be distributed according to the ratio of turnover of all the units.

An ISD will have to file monthly returns in GSTR-6 within thirteen days after the end of the month and will have to furnish information of all ISD invoices issued. The details in the returns will be made available to the respective recipients in their GSTR 2A. The recipients may include these in its GSTR-2 and take credit. An ISD shall not be required to file Annual return. An ISD cannot accept any invoices on which tax is to be discharged under reverse charge mechanism. This is because the ISD mechanism is only to facilitate distribution of credit of taxes paid. The ISD itself cannot discharge any tax liability (as person liable to pay tax) and remit tax to government account. If ISD wants to take reverse charge supplies, then in that case ISD has to separately register as Normal taxpayer.

**Conclusion:**

Thus the concept of ISD is a facility made available to business having a large share of common expenditure and billing/payment is done from a centralized location. The mechanism is meant to simplify the credit taking process for entities and the facility is meant to strengthen the seamless flow of credit under GST.

### **Input Service Distributor (ISD) under GST: A Comprehensive Overview**

#### **Introduction**

The Input Service Distributor (ISD) mechanism under the Goods and Services Tax (GST) regime is a strategic facility that enables the proportionate distribution of input tax credit (ITC) pertaining exclusively to input services. As defined under the CGST Act, an ISD refers to an office of the supplier of goods or services (or both) that receives tax invoices for input services and subsequently issues prescribed documents for distributing the credit of CGST, SGST/UTGST, or IGST to other branches or units registered under the same Permanent Account Number (PAN).

It is critical to understand that this mechanism is confined to **input services** and excludes **inputs** (goods) and **capital goods** from its scope.

#### **Business Context and Need for ISD Mechanism**

Large enterprises often operate through multiple branches or units across various States/UTs, with centralized procurement of common services such as software licenses, legal consultancy, security services, etc. In such cases, invoices for these shared services are typically billed to the corporate or head office. However, the benefit of input tax credit must logically accrue to all consuming units.

The ISD mechanism facilitates the **systematic allocation of common service-related credits** to various branches that utilize these services, ensuring that the ITC is distributed efficiently and equitably, maintaining compliance and optimizing tax benefits.

#### **Key Features of ISD under GST**

* **Legacy Mechanism**: The ISD concept has been retained from the erstwhile Service Tax regime, with procedural refinements under GST.
* **Separate Registration Required**: An ISD is mandated to obtain a **distinct registration** (irrespective of turnover) through Form GST REG-01, separate from normal taxpayer registration.
* **Eligible Credits**: Only credit pertaining to **input services** can be distributed. ISD cannot distribute credits related to goods or capital goods.
* **Mode of Distribution**: Credit is distributed via **ISD invoices** as per Rule 54(1) of CGST Rules, 2017, and must clearly mention that the invoice is issued solely for ITC distribution.
* **Time Frame**: Credit pertaining to a month must be distributed **within the same month**, and the details are to be reported in **Form GSTR-6**.
* **Eligible and Ineligible Credit**: ISDs are required to **separately distribute** eligible and ineligible credits.

#### **Distribution Logic**

* **Within the Same State**:
  + CGST and SGST/UTGST are distributed as CGST and SGST/UTGST respectively.
* **To Other States/UTs**:
  + CGST and SGST/UTGST are aggregated and distributed as **IGST**.
* **Integrated Tax Credit (IGST)**:
  + IGST credit is distributed as IGST, regardless of the recipient's location.

#### **Illustrative Example**

ABC Ltd. has its corporate office in Bangalore and branches in Chennai, Mumbai, and Kolkata. The company procures a software license utilized across all four locations. The invoice (bearing CGST and SGST) is billed to the Bangalore office. Since the benefit of this service extends across all units, the ITC must be distributed to the respective branches.

If the corporate office receives:

* CGST: ₹4,00,000
* SGST: ₹4,00,000
* IGST: ₹7,00,000

The total credit of ₹15,00,000 can be distributed through ISD invoices to all four locations based on the **turnover ratio** or **direct attribution**, as applicable.

#### **Basis of Distribution**

* **Direct Attribution**: If an input service is exclusively used by one unit, credit is assigned **solely** to that unit.
* **Common Services**: If the service is used by multiple units, the credit is apportioned based on the **turnover of each unit** in the respective State/UT.

#### **Compliance and Filing**

* ISDs are required to file **Form GSTR-6** monthly by the **13th of the succeeding month**, detailing the ITC distributed.
* These details are auto-populated in the respective recipient units’ **GSTR-2A** and can be claimed accordingly.
* **No annual return** is required for ISDs.
* **Restriction on Reverse Charge**: ISDs cannot receive or pay tax on supplies liable under the **reverse charge mechanism (RCM)**. For this, a separate registration as a **normal taxpayer** is necessary.

#### **Conclusion**

The ISD mechanism under GST serves as a vital credit distribution tool for businesses with centralized procurement of input services and multiple operating units. It ensures optimal use of credit, eliminates procedural redundancies, and upholds the integrity of input tax flow across the organization. By institutionalizing such credit apportionment, the GST framework strengthens its foundational principle of **seamless tax credit and ease of compliance**.