



Credit Where It's Due: ISD
Demystified

Input Service Distributor: Past and Present

Who is an ISD?

- ▶ An Input Service Distributor ('ISD') is not a person but a designated office of a business that receives invoices for input services and distributes the corresponding input tax credit (ITC) to other GST-registered locations of the same organisation.
- ▶ The ISD mechanism applies only to services, not goods. If the invoice has an HSN code for a tangible item, it's out of the ISD club.

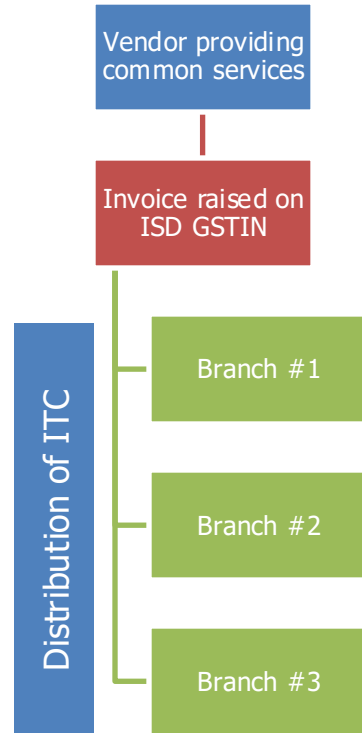
What types of services go through ISD?

- ▶ Typically, services that are procured centrally and benefit multiple branches. Examples include:
 - ▶ Marketing and advertising
 - ▶ Insurance premiums
 - ▶ Software subscriptions
 - ▶ Bank charges and fees
 - ▶ Audit fees
 - ▶ Legal and consultancy fees

- ▶ If the head office is paying for it but everyone's using it, chances are it belongs under ISD. Think of ISD as the central character in a Studio Ghibli film—quiet, unassuming, but holding the whole story together.

Why are we talking about it now?

- ▶ ISDs already existed since the service tax regime prior to the introduction of GST. But till now, it was always optional for a business to take such a separate registration. But no more.
- ▶ With effect from **April 1, 2025**, if a business has multiple GST registrations under the same PAN, it must register as an Input Service Distributor (ISD)—even if it is already registered as a regular taxpayer in the same State.
- ▶ This removes the optional nature of ISD for such setups and makes it mandatory for sharing ITC on common input services.



Action point:

If a business has multiple GSTINs – within a single state or not, it should be obtaining a ISD GSTIN immediately, if it already does not have one.

Pro tip:

Any office of a business can be designated as an ISD. It would make sense to designate the registered office or the head office as the ISD. Note that this is in addition to the regular registration that this location may have.

How does ISD work?

- ▶ The process is relatively straightforward but demands discipline. The ITC received must be distributed via Form GSTR-6, which is filed monthly by the 13th.
- ▶ Some key distribution rules:

Distribute only what you have
You can't pass on more ITC than you've received.

Do it monthly
No credit hoarding. GST wants you to share promptly.

Branch-specific ITC
goes to the respective branch.

Common credits
like those for software or ads are split based on the **turnover** of each branch for the previous year.

Eligible and ineligible ITC must be distributed separately

Branches making **exempt supplies** or **not registered under GST** can still receive credit.

Pro tip:
If a branch didn't exist or had no turnover in the previous year, you refer to the earliest quarter with turnover. If no such data exists, the law remains silent—so tread carefully

Key quirks about ISD

- ▶ Even though the ISD mechanism is designed to simplify things, it has its fair share of fine print. Here are a few nuances worth noting:
 - ▶ **Reverse charge still applies:** If the ISD receives services that attract GST under the reverse charge mechanism—like legal fees or import of services—it must pay the GST accordingly. The resulting ITC can then be distributed, just like any other eligible credit.
 - ▶ **Distribute with documentation:** Every time ITC is allocated, the ISD must issue an ISD invoice to the respective branch.
 - ▶ **When credits shrink:** If ITC previously distributed gets reduced—for example, due to a vendor issuing a credit note—the ISD must issue an ISD credit note to the affected branch to reverse the excess credit.
 - ▶ **And when they grow:** On the flip side, if additional credit becomes available through a debit note, the ISD can pass it along by issuing another ISD invoice.

Vendor communication: one invoice to rule them all

- ▶ One of the most common slip-ups is vendors issuing invoices to operational GSTINs instead of the ISD. Avoid this by:
 - ▶ Communicating the ISD GSTIN clearly
 - ▶ Updating vendor agreements
 - ▶ Making sure the accounting team is aligned
- ▶ It's a simple fix, and it saves a lot of backtracking.

Example of ITC distribution by ISD

- **Scenario:** ABC Ltd. (Head Office in Mumbai, Maharashtra) receives an invoice for ITC of ₹1,20,000 on marketing services. The company has three branches in different states with the following turnover:

State	Turnover (₹)	% of total turnover
Maharashtra	₹2,00,00,000	40%
Karnataka	₹1,50,00,000	30%
Tamil Nadu	₹1,50,00,000	30%
	₹5,00,00,000	100%

- To distribute this ITC, the ISD GSTIN of ABC Ltd. must issue an ISD invoice to each branch.

State	% of total turnover	ITC allocated (₹)
Maharashtra	40%	₹48,000
Karnataka	30%	₹36,000
Tamil Nadu	30%	₹36,000
	100%	₹1,20,000

Action point:

Keep your ITC distribution ratios ready by May 11, 2025, i.e., before the first ISD GST return needs to be filed.

Return filing schedule

- Here's how ISD fits into a business's monthly GST routine:

Dates	Return	Purpose
1st–11th	GSTR-1	Regular outward supplies
12th–13th	GSTR-6	ITC distribution by ISD
14th–20th	GSTR-3B	Monthly GST summary return

- The window is tight and missing it could mean delays in credit flow. Mark your calendars accordingly.

Pro tip:

If a vendor incorrectly invoices a common service to a regular branch GSTIN, the regular branch GSTIN can invoice the ISD GSTIN which in turn can distribute the ITC among all the branches.

In conclusion

- The ISD mechanism isn't flashy, but it plays a quiet and essential role in efficient GST credit flow. It ensures the right branches get the right share of centrally incurred expenses—without complications or overlap.
- Handled well, ISD simplifies compliance. Handled poorly, it's one more thing to be flagged at your next audit.

Notice to the reader

In relation to this publication, you may contact:

George Joseph, Managing Partner
Cell : +91 97464 00575
Email: gj@gja.co.in

P. Rajagopal, Jt. Managing Partner
Cell : +91 93886 09990
Email: pr@gja.co.in

Shaji Varghese, Partner
Cell : +91 98470 44030
Email: shaji.varghese@gja.co.in

Umesh Bhat, Partner
Cell : +91 98472 74567
Email: umeshbhat@gja.co.in

Reuben Joseph, Partner
Cell : +91 98952 09307
Email: reuben.joseph@gja.co.in

N. Vijayakumar, Principal (Indirect Tax.)
Cell : +91 94463 62533
Email: vjkumar@gja.co.in

Allen Joseph, Partner
Cell : +91 90483 06882
Email: allen.joseph@gja.co.in

Raphael Sharon, Partner
Cell : +91 99462 03087
Email: raphael.sharon@gja.co.in

Nithin Siva, Partner
Cell : +91 77368 93698
Email: nithin.s@gja.co.in

George Nettady, Partner
Cell : +91 94950 07758
Email: george.nettady@gja.co.in

37/2038, 1st Floor, Muttathil Lane
Kadavanthra, Cochin – 682 020, Kerala

Phone: +91 484 2207 411
Email - mail@gja.co.in

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Authors



Mariya Eby, Articled Assistant
mariya.e@gja.co.in



Reuben Joseph, Partner
reuben.joseph@gja.co.in

Editorial board of GJA Learning

- ▶ Gowry Krishna, gowry.k@gja.co.in
- ▶ Deepak P., deepak.p@gja.co.in
- ▶ Riya Thomas, riya.thomas@gja.co.in
- ▶ Karthik S., karthik.s@gja.co.in