

DESAI SAKSENA & ASSOCIATES

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Friday Tax Alert

From:

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Mandatory ISD Compliance Under GST from April 1, 2025

The CBIC issued Notification No. 16/2024-Central Tax dated 06.08.2024, to notify the effective dates for implementation of the amended GST law provisions as amended by the Finance Act, 2024. These Proposed changes relate to:

Changes relating to Input Service Distributor (Notified date w.e.f. 01.04.2025)

Amendment to the Definition of ISD in Section 2(61) of the CGST Act, 2017:

The amended definition now reads: “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.”

Amendment to the Manner of Distribution of Credit by ISD in Section 20:

The revised section 20 states:

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-section (3) or sub-section (4) of section 9, for or on behalf of distinct persons referred to in section 25, shall be required to be registered as Input Service Distributor under clause (viii) of section 24 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 sub-section (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.
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, in such manner as may be prescribed.”

Effect of the Amendments: -

- i. **Mandatory ISD Mechanism:**
The new definition mandates the ISD mechanism, making it compulsory for distributing ITC. This change will apply prospectively from a date appointed by the Central Government via notification in the Official Gazette.
- ii. **Inclusion of RCM Services:**
ITC on Reverse Charge Mechanism (RCM) invoices, where tax is first paid by a distinct person registered in the same state as the ISD, must also be distributed by the ISD. This includes services like Goods Transport Agency (GTA) and legal services covered under RCM.
- iii. **Detailed Procedures to be Prescribed:**
- iv. The revised section 20 does not detail the ITC distribution process by ISD, which will now be covered under amended Rule 39 of the CGST Rules. This amendment will include provisions for the computation of distribution ratios, aligning with the GST Council's recommendations.
- v. **Distribution to Distinct Persons:** The proposed definition covers distinct persons referred to in section 25 of the CGST Act, which includes other registrations of the same person in different states/UTs, expanding the scope beyond the same Permanent Account Number (PAN).

Conditions for the distribution of ITC by ISD

1. The input tax credit available for distribution in a month shall be distributed in the same month and the details thereof shall be furnished in FORM GSTR-6 for the same month.

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2. The amount of the credit distributed shall not exceed the amount of credit available for distribution.
3. The amount of credit shall be distributed to registered as well as unregistered recipients to whom such a service is attributable including the recipients who are engaged in making exempt supply
4. ISD shall separately distribute the amount of ineligible input tax credit (ineligible under the provisions of sub-section (5) of section 17 or otherwise) and the amount of eligible input tax credit.
5. The credit of tax paid on input services attributable to a recipient of credit shall be distributed only to that recipient.
6. The credit of tax paid on input services attributable to more than one recipient/ all recipients of credit shall be distributed amongst such recipients/ all recipients to whom the input service is attributable, and which are operational in the current year on pro rata basis in the manner provided separately later in this document (refer manner of pro- rata distribution of ITC).

Distribution of ITC by ISD on taxes paid under RCM

For the distribution of credit in respect of input services, attributable to one or more distinct persons, subject to levy of tax under reverse charge, a registered person, having the same PAN and State code as an Input Service Distributor, may issue an invoice or, as the case may be, a credit or debit note to transfer the credit of such common input services to the Input Service Distributor. Such credit shall be distributed by the said Input Service Distributor in the manner as provided above for normal ITC.

Document for Distribution of ITC

- The ISD shall issue an Input Service Distributor invoice, indicating in such invoice that it is issued only for distribution of input tax credit.
- The ISD shall issue an Input Service Distributor credit note, for reduction of credit in case the input tax credit already distributed gets reduced for any reason.
- Any ITC distributed by ISD and required to be reduced later on for any reason for any/ all recipients (including that it was distributed to a wrong recipient), shall be reduced by issuance of a credit note by ISD and shall be apportioned to each recipient in the same ratio in which the input tax credit contained in the original invoice was distributed and the amount so apportioned shall be-
- reduced from the amount to be distributed in the month in which the credit note is included in the return in FORM GSTR-6; or
- added to the output tax liability of the recipient where the amount so apportioned is in the negative by virtue of the amount of credit under distribution being less than the amount to be adjusted.
- Any additional amount of input tax credit on account of issuance of a debit note to an Input Service Distributor by the supplier shall be distributed in the manner and subject to the conditions as discussed above for distribution of ITC on invoice and such credit shall be distributed in the month in which the debit note is included in the return in FORM GSTR-6.

Particulars of Documents issued for transfer of ITC

- Invoice or credit note issued by ISD to the recipient to whom the credit is distributed
- name, address and GST Number of the ISD.
- a consecutive serial number not exceeding sixteen characters, in one or multiple series, containing alphabets or numerals or special characters hyphen or dash and slash symbolised as- “-”, “/” respectively, and any combination thereof, unique for a financial year
- date of its issue;
- name, address and GST Number of the recipient to whom the credit is distributed;
- amount of the credit distributed; and

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- signature or digital signature of the Input Service Distributor or his authorised representative:

A registered person (having the same PAN and State code as an ISD), may issue an invoice or, as the case may be, a credit or debit note to transfer the credit of common input services on which tax is paid under RCM to the ISD, with the taxable value same as the value of the common services

- name, address and GST Number of the registered person
- a consecutive serial number not exceeding sixteen characters, in one or multiple series, containing alphabets or numerals or special characters -hyphen or dash and slash symbolised as “-” and “/” respectively, and any combination thereof, unique for a financial year;
- date of its issue;
- GST Number of supplier of common service and original invoice number whose credit is sought to be transferred to the Input Service Distributor;
- name, address and GST Number of the Input Service Distributor.
- taxable value, rate and amount of the credit to be transferred; and
- signature or digital signature of the registered person or his authorised representative.

Manner of Recovery of ITC distributed in excess

Where the Input Service Distributor distributes the credit in contravention of the above-mentioned provisions 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 recovery proceedings under the provisions of section 73 or section 74 or section 74A, as the case may be, shall, mutatis mutandis, apply for determination of amount to be recovered.

Form and Manner of Submission of return by ISD

- Every taxable person registered as an Input Service Distributor shall, for every calendar month or part thereof, furnish, in such form and manner as may be prescribed, a return, electronically, within thirteen days after the end of such a month.
- Every Input Service Distributor shall, on the basis of details contained in FORM GSTR-6A, and where required after adding, correcting or deleting the details, furnish electronically the return in FORM GSTR-6, containing the details of tax invoices on which credit has been received and those issued under section 20, through the common portal either directly or from a Facilitation Centre notified by the Commissioner.