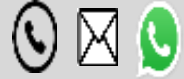




Serial No. 017
Dt.: 23-01-2023



Section 20 of CGST Act, 2017

20. Manner of distribution of credit by Input Service Distributor.

(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;
- (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, —

(a) 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
- (ii) 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;

(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.

Relevant Rule	Subject	Relevant Forms
Rule 39	Procedure for distribution of input tax credit by Input Service Distributor (To be covered in Separate Volume)	GSTR-6
Rule 54(1) & Rule 54(1A)	Tax invoice in special cases (To be covered in Separate Volume)	NIL

Our Interpretation

Section 20	<p><u>Meaning of Input Service Distributor (ISD)</u></p> <p>A Company might have multiple branches in different states under same PAN to be treated as Distinct Person. Sometimes the head office has to take certain services (not the goods) which are enjoyed by all or most of the branches. For example: common services like, Internal Audit fees, Statutory Audit fees, Banking Charges, Group Insurance, Consultation fee. Invoices are issued by the service provider in the name of Head office, thus accounted for in the Books of accounts of the head office and even payment is made from head office. GST being consumption-based tax and services being enjoyed by branches in multi-States, thus ISD mechanism provided in the GST Act whereby Head Office would distribute the Central Tax (CGST or IGST) to the branches in the proportion of turnover base of each branch.</p> <p>An ISD has to get compulsory registration u/s 24. There is no threshold limit for Registration in case of ISD. An ISD has to take a separate registration u/s 24 even though he is already registered under this Act and needs to file a separate return in GSTR-7 for distribution of central tax available with him for distribution to its branches.</p>
Section 20(1)	<p><u>Distribution of Inputs by ISD</u></p> <p>ISD is an office from where a document like invoice is issued for the services attributable to other branches. Please note that ISD cannot be an office that does any supply of its own but must be one that merely receives invoice and taxes and issues prescribed documents for its distribution.</p> <p>Inter branch supply of services should not be misinterpreted as distribution of ISD. One needs a separate registration as a regular dealer if he wishes to make inter branch supply of services. For regular inter branch supply of services, company raises invoice generally known as cross charge invoice which is entirely different from ISD Invoice. ISD can only receive input tax credit on invoice related to input services and distribute such credit of central taxes (CGST or IGST).</p>
Section 20(2)	<p><u>Condition for credit distribution</u></p> <p>The following conditions must be complied by an ISD:</p> <ol style="list-style-type: none"> Recipient shall receive ITC against ISD invoice ITC distributed shall not exceed ITC available for distribution ITC related to a recipient shall be distributed only to such recipient ITC shall be distributed on pro-rata basis of turnover during the relevant period. <p>Relevant period means preceding financial year if the turnover of the recipient is available or the last quarter for which details of turnover are available, previous to the month during which credit is to be distributed.</p>

We expressly disclaim liability to any person in respect of anything done in reliance of the contents of this publication.