

GST UPDATES

April 1, 2025



ISD-Compliance

Streamlining ITC  
for  
Multi-State Operations

Effective from 01.04.2025

ISD Mechanism under GST-Background

In a multi-state business model, managing Input Tax Credit (ITC) for shared services can be complex. With the intent to simplify this by allowing businesses to centrally receive invoices for common input services and distribute the eligible ITC to respective branches, ISD mechanism has been enabled. This ensures seamless credit utilization, prevents tax inefficiencies, and enhances compliance. By registering as an ISD, organizations can optimize their GST management, reduce tax burdens, and streamline financial operations across multiple locations.

ISD mechanism is applicable for the organization, having GST registrations in multiple states under Same PAN.

Relevant Applicable Law

ISD mechanism provided under the law since GST inception, however, the concept of cross charge was used as alternate remedy for ISD. However, Finance Act, 2024 (08 of 2024) made the ISD mechanism made mandatory for the distribution of ITC related to common Service procured. And procedures related to registration and filing is applicable from 01.04.2025.

Registration and returns

Section 24 of the CGST Act mandates ISD registration, separate from a business's regular GST registration, without any threshold limit for ISD registration. Further GSTR 6 is to filed on 13<sup>th</sup> of every succeeding month.

A mandatory monthly return filed by the 13th of the next month, even if NIL.

Credit Distribution by ISD

- i. ISD issues an ISD invoice for ITC distribution.
- ii. The ITC amount distributed cannot exceed the available credit.
- iii. ITC of a specific input service must be distributed only to the relevant branch.
- iv. Common ITC is distributed based on turnover ratios.
- v. If no turnover exists in the previous year, ITC is distributed based on the last quarter’s turnover.
- vi. ITC for a given month must be distributed within the same month.
- vii. Eligible and ineligible ITC must be distributed separately.
- viii. ITC of CGST, SGST, UTGST, and IGST must be distributed separately.

Distribution method:

- i. **Distribution of ITC in Same State:** CGST and SGST/UTGST remain as such.
- ii. **Distribution of ITC in Different States:** CGST and SGST/UTGST convert into IGST.

Debit and Credit Notes by ISD

Debit note issued by the supplier increasing ITC of ISD, shall be distributed in the month of Debit note issued.

Similarly, A credit note reducing the ITC, requiring an ISD to credit note to adjust the earlier distributed.

Also, If ITC was wrongly allocated, an ISD credit note can be issued to rectify the error.

RCM Compliances for ISD

As the scope of ISD is not limited to the GST paid by ISD under forward charge (GST Charged by supplier on invoices), but it is also extended to GST Paid under Reverse Charge in intra state supplier as per Sec 9(3) and 9(4) of CGST Act 2017.

Further, amended provision also provide the include the Reverse Charge in interstate supplier as per Sec 5(3) and 5(4) of IGST Act 2017.

Consequences in case of Contraventions of the provision of law.

Any ITC distributed in contravention with the provision of Law and resulting in excess distribution of Credit, more than eligible ITC, then such excess distribution shall be recovered as per the provision of Sec 73, Sec 74 or Sec 74A, as the case may be.

Further, in case ISD takes or distribute the ITC in contravention of Sec 20, or rules made thereunder, such ISD shall be liable for penalty equal to 20,000 or equal to tax amount distributed, whichever is higher.

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