

INPUT SERVICE DISTRIBUTOR UNDER GST

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INTRODUCTION

In GST regime, every supplier is liable to be registered in the States or Union Territories from where he makes a taxable supply. In addition, the supplier has been provided with the option to opt for separate registrations for different business verticals in the same State. Besides above, a deeming fiction is created, whereby, a person who has obtained or is required to obtain more than one registration (within or outside one State or Union Territory), in respect of each such registration, shall be treated as 'Distinct Persons'. Further, the scope of supply in GST is wide enough, whereby, the supply of any goods and/or services between the distinct persons are 'deemed' to be a supply. This is regardless of the fact that, whether such supply is for a consideration or not.

On reading this, it emerges that, suppliers who have multiple registrations are required to identify any free of cost supplies to their other registrations and discharge GST on it. In such scenario, the suppliers having centralized procurement facilities would need to understand the GST implications of activities carried out at head office (HO) for other registrations. The activities which are carried by any HO for its units located PAN India can be classified into the following two categories:

1) PROCURING GOODS AT CENTRALLY LOCATED HO FOR DISTRIBUTION TO UNITS ACROSS THE COUNTRY:

In this scenario the goods are procured by the HO for the use by the units. The goods either first come to the HO, then are transferred to the units or the goods are directly delivered to the units. In both the cases the goods are procured by the HO and therefore HO is liable to pay consideration to the suppliers. Thus, recipient shall be the HO. Further, in light of provision of distinct persons under Section 25 of the CGST Act and Entry 2 of the Schedule I of the CGST Act, the transfer of such goods to its units which are separately registered shall be treated as a taxable supply. Therefore, HO shall pay GST on transfer of such goods after availing of the eligible input tax credit.

2) PROCURING SERVICES AT HO CENTRALLY FOR UTILIZATION BY THE UNITS ACROSS THE COUNTRY:

The HO enters into a service contract with the supplier of services wherein the services are used either exclusively by the other registration or is for the common benefit of the entity. Such services are centralized consultancy services, statutory audit services, IPR services, etc., Keeping this scenario in mind, the legislators has provided provisions of Input Service Distributor (ISD) under the GST law. ISD has been specifically defined under sub-clause (61) of section 2 of the CGST Act as follows:

"Input Service Distributor" means an office of the supplier of goods or services or both which receives tax invoices issued under section 31 towards the receipt of input services and issues a prescribed document for the purposes of distributing the credit of central tax, State tax, integrated tax or Union territory tax paid on the said services to a supplier of taxable goods or services or both having the same Permanent Account Number as that of the said office.

Therefore, ISD is an office of a supplier which receives invoices for services used by its units. It distributes input tax credit (ITC) of tax paid to such units on a proportional basis by issuing an ISD invoice. Thus, the HO needs not treat such use of services as its inward supply and instead shall distribute such tax paid by way of ISD mechanism. It is pertinent to mention here that, under the GST law there is requirement to take separate ISD registration which is independent from the normal GST registration. Hence, in case of the activity of apportioning the ITC to other registrations, a separate registration of ISD has to be taken. After taking ISD registration, the invoices for these activities shall be taken on the GSTIN of ISD and thereafter the ITC shall be distributed as per the ISD mechanism as mentioned under Section 20 of the CGST Act.

ITC ELIGIBILITY

To check the eligibility of the ITC, we need to primarily take into consideration the section 16 of CGST Act which deals with claiming of ITC on goods and/or services. As per the said section, the registered person shall be entitled to claim ITC of GST charged on goods and/or services, provided such goods and/or services are used or intended to be used in the course or furtherance of

business. Additionally, conditions of section 17 of the CGST Act shall also be tested with regard to apportionment and blockage of ITC.

MANNER OF DISTRIBUTION OF CREDIT BY ISD

The manner of the distribution of the ITC by ISD is covered under section 20 of the CGST Act as follows:

I	ISD may distribute the credit in following manner:			
	Credit of	IGST	CGST	SGST
	Credit as	IGST	CGST (If Recipient is in the same State)	SGST (If Recipient is in the same State)
			IGST (If Recipient is in other State)	IGST (If Recipient is in other State)
II	ISD may distribute the credit subject to the following conditions:			
A	Credit can be distributed against a document i.e., an ISD Invoice.			
B	Credit distributed shall not exceed the amount of credit available for distribution.			
C	If one to one reference of credit is available, then credit shall be distributed only to that recipient.			
D	If credit is attributable to more than one recipient, then credit shall be distributed on PRO RATA BASIS of the turnover in a state of such recipient, during the relevant period, to the aggregate turnover of all such recipient. [Note: 'Relevant Period' means preceding financial year of the State or Union Territory]			

WRITER'S COMMENTS

The author is of the view that, multi-location business working under centralised environment shall identify common expenditures and make use of this option provided by the Government in the form of ISD to mitigate the costs and also avoid disputes with the authorities in relation to the ITC eligibility. Adequate care shall also be taken while performing the compliance duties,

calculations and also in the return filing process. Adherence to the due dates shall ensure a free flow of the ITC across the registrations involved in the process.

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