

Mandatory ISD registration from April 1, 2025

Starting April 1, 2025, businesses with multiple GST registrations under the same PAN will be required to obtain **Input Service Distributor (ISD)** registration. This new mandate aims to streamline the distribution of ITC across multiple GSTINs of a single entity, ensuring fairness and efficiency in ITC allocation for centrally procured input services.

Key Highlights of the ISD Registration Mandate:

- **Mandatory ISD Registration:** Businesses with multiple GSTINs under the same PAN will need to register as an ISD to properly distribute ITC across branches or units.
- **Scope of Distribution:** ISD registration is specifically for distributing ITC on input services only, not on raw materials, machinery, or capital goods.
- **ITC Distribution Method:** ITC is distributed among different GSTINs based on the **turnover ratio** of the branches using the common input services.
- **Monthly Filing of Returns:** Businesses with ISD registration must file **GSTR-6** returns by the **13th of each month**, detailing the ITC distributed across various branches.



Who Needs ISD Registration?

- Businesses that centrally procure input services (e.g., software maintenance, IT services) for use across multiple branches or locations.
- For example, XYZ Ltd. (head office in Mumbai) with branches in Chennai, Kolkata, and Bangalore must distribute the ITC on centrally procured software maintenance costs across these locations.

Conditions for Obtaining ISD Registration:

1. **Apply for ISD Registration:** Businesses must apply for ISD registration through **Form REG-01** under GST.
2. **ISD Invoices:** The ISD must issue invoices, clearly stating "for distribution of ITC" to the branches receiving the ITC.
3. **File GSTR-6:** Businesses must file GSTR-6 monthly by the 13th to report ITC distribution, any reversals, and modifications.
4. **Timely Distribution of ITC:** ITC must be distributed in the same month in which it is received.
5. **Turnover-Based ITC Allocation:** The ITC distribution to each branch will be calculated using the turnover ratio.

Formula for ITC Distribution:

ITC for a branch = Turnover of branch / Total turnover of all branches × Total ITC

When ISD Registration is Not Applicable:

- ITC on raw materials, machinery, or capital goods cannot be distributed.
- ITC distribution to outsourced manufacturers or service providers is not



applicable.

- Entities that do not incur common input service expenses across multiple locations are not required to register as ISD.

ITC Distribution Rules:

- **Same State/UT:** If the branch is in the same state or Union Territory UT as the ISD, the ITC will be split between **CGST and SGST/UTGST**.
- **Different State/UT:** If the branch is in a different state or UT, the ITC will be split as **IGST**.

ISD Compliance and Documentation:

- **ISD Invoice:** Must be marked "for distribution of ITC" to allocate ITC to branches.
- **ISD Credit Note:** Issued when reversing previously distributed ITC.
- **RCM Tax Credit Transfer:** Invoice required for transferring ITC on reverse charge services.
- **Monthly Return Filing (GSTR-6):** File by the 13th each month, detailing ITC received, distributed, and adjustments.

Consequences of Non-Compliance:

- **Penalties and Interest:** Excessive ITC distribution will result in penalties and interest.
- **GST Audits:** Incorrect distribution or mismatches can trigger audits.
- **ITC Reversal:** Incorrect claims may lead to ITC reversal, affecting working capital.



Steps for Smooth ISD Implementation:

- **Identify Common Expenses** shared across branches (e.g., software, IT services).
- **Register for ISD** at the location procuring services.
- **Adjust Accounting Systems** to track ISD credits and automate distribution.
- **Notify Vendors** to use the correct ISD GSTIN on invoices.
- **Train Finance Teams** on ISD compliance and GSTR-6 filing.

Conclusion:

With mandatory ISD registration coming into effect on April 1, 2025, businesses must act now to ensure compliance. ISD registration will facilitate the smooth distribution of ITC for centrally procured services, reduce the risk of non-compliance, and improve the overall efficiency of tax credit utilization across multiple locations.



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