Circular No. 260/06/2026-GST

F. No. CBIC-20001/2/2026-GST
Government of India
Ministry of Finance
(Department of Revenue)
Central Board of Indirect Taxes & Customs
GST Policy Wing
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Room No. 16039, Kartavya Bhawan-01
New Delhi, Dated: 26.10.2026

To,

The Principal Chief Commissioners/ Chief Commissioners (All)
The Principal Director General/ Director General (All)

Madam/Sir,

Subject: Clarification on Issues pertaining to Input Service Distributor – reg.

Representations have been received from trade and industry seeking clarity on certain issues regarding provisions of section 2(61) and section 20 of Central Goods and Services Tax Act, 2017 (hereinafter referred to as "CGST Act, 2017") as well as rule 39 and rule 54(1A) of Central Goods and Services Tax Rules, 2017 (hereinafter referred to as "CGST Rules, 2017") related to Input Service Distributor (hereinafter referred to as "ISD").

2. The matter has been examined. In order to ensure uniformity in the implementation of the provisions of the law across the field formations, the Board, in exercise of its powers conferred under section 168(1) of the CGST Act, hereby clarifies the issues raised as follows:

Table

S. No.	**Issue**	**Clarification**
1.	Whether ISD registration is required for each business	a) ISD has been defined under section 2(61) of CGST Act, 2017, to mean an office of

	vertical/ place of business within the same State/UT?	supplier of goods or services or both, which receives input service invoices, including invoices in respect of services liable to tax under reverse charge, for or on behalf of distinct persons referred in section 25 of CGST Act, 2017, and liable to distribute input tax credit in respect of such invoices in the manner provided in section 20 of CGST Act, 2017. b) As per provisions of section 25(2) and section 25(4) of CGST Act, 2017, if separate registrations have been obtained for separate business verticals or places of business within a State or UT, before or after 01.02.2019 respectively, then each such registrant is to be treated as a distinct person under the Act. c) A plain reading of the above-mentioned provisions indicates that there is no bar on obtaining more than one ISD registration for each business vertical or each place of business, as the case may be, within a State or UT. d) Accordingly, it is clarified that: i. Each such registrant who receives input services invoices for or on behalf of distinct persons, which is liable to be distributed in the manner provided in section 20 of CGST Act, 2017, is required to obtain an ISD registration. ii. However, it is to note that in terms of provisions of rule 39(1) of CGST Rules, 2017, the ISD shall distribute the credit

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		only to the distinct person to whom the credit is attributable to.
2.	In case of distribution of input tax credit by ISD, whether ISD or the recipient of credit is liable to comply with the conditions for availment of input tax credit under section 16 of CGST Act, 2017?	a) As per the definition of ISD under section 2(61) of CGST Act, 2017, ISD is an office of supplier of goods or services or both, which receives input service invoices, including invoices in respect of services liable to tax under reverse charge, for or on behalf of distinct persons referred in section 25 of CGST Act, 2017, and liable to distribute input tax credit in respect of such invoices in the manner provided in section 20 of CGST Act, 2017. b) As per provisions under section 21 of CGST Act, 2017, where an ISD distributes credit in contravention of the provisions of section 20, resulting in excess distribution of credit to one or more recipients of credit, the excess credit so distributed shall be recovered from the recipients of credit along with interest, and the provisions of section 73 or section 74 or section 74A, as the case may be, shall apply for determining the amount to be recovered. c) Further, as per clause (ix) of section 122(1) of CGST Act, 2017, in case a taxable person takes or distributes input tax credit in contravention of section 20 of CGST Act, 2017, or the rules made thereunder, he shall be liable to pay a penalty of ten thousand rupees or an amount equivalent to the tax evaded or input tax credit distributed

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		irregularly, whichever is higher. d) Based on the above it is clarified that: i. The ISD is required to distribute the credit to its distinct persons (recipients of credit), for or on whose behalf, it receives input service invoices, in the manner provided for in section 20 of CGST Act, 2017. ii. It is the recipients of credit, who are liable to comply with the conditions for being eligible to the input tax credit, including the conditions stipulated in section 16 or section 17 of CGST Act, 2017 and rules made thereunder. iii. In case credit is distributed by the ISD, in contravention of provisions of section 20 of CGST Act, 2017, the ISD is liable to penalty under clause (ix) of section 122(1) of CGST Act, 2017, and if such contravention results in excess distribution of credit to one or more recipients of credit, the excess credit so distributed is liable to be recovered from such recipients of credit, in terms of the provisions under section 21 of CGST Act, 2017.
3.	What does the condition of "input tax credit available for distribution in a month" being required to be distributed in the same month as per rule 39(1)(a) of CGST Rules, 2017	a) In terms of section 20(2) of CGST Act, 2017 read with rule 39(1)(a) of CGST Rules, 2017, the input tax credit available for distribution in a month, is required to be distributed by the ISD, in the same month and the details thereof are required to be included in FORM GSTR-6.

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	mean?	b) As per rule 65 of CGST Rules, 2017, ISD is required to furnish FORM GSTR-6, on the basis of details contained in FORM GSTR-6A and where required, after adding, correcting or deleting the details, furnish FORM GSTR-6 containing the details of tax invoices on which credit has been received and the invoices issued under section 20 of CGST Act, 2017. c) Further, section 16(2) of CGST Act, 2017 enlists the conditions for eligibility which are required to be fulfilled for availment of input tax credit. d) As clarified in Sr. No. 2 above, it is the recipients of credit, who are liable to comply with the conditions for being eligible to the input tax credit, including the conditions stipulated in section 16 or section 17 of CGST Act, 2017 and rules made thereunder. e) Further, as per rule 39(1)(g) of CGST Rules, 2017, the ISD is required to separately distribute input tax credit which is eligible and which is ineligible in terms of section 17(5) of CGST Act or otherwise. f) Therefore, even though ISD is not required to avail input tax credit itself, but in case of distribution of credit through ISD mechanism, as the procurement of services is being made centrally, only ISD, which receives the input services invoices, is in the best position to determine whether input tax credit in respect of such invoices is eligible

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		to be availed. g) Accordingly, it is clarified that once the details of the input services invoices are received by the ISD on behalf of its distinct persons in its FORM GSTR-6A, the input tax credit in respect of the said invoices can be said to be available to the ISD for distribution only when it is ascertained by the ISD to be prima facie eligible for availment. Therefore, in terms of rule 39(1)(a) of CGST Rules, 2017, the ISD is required to distribute the said input tax credit in the month in which he makes such ascertainment, and distribute it separately as eligible and ineligible credit in accordance with the provisions of rule 39(1)(g) of CGST Rules, 2017. The details thereof are to be included in FORM GSTR-6.
4.	In respect of the input tax credit distributed by the ISD, whether the ISD or the recipient of credit is required to make reversals of input tax credit under section 17(1) or section 17(2) or section 17(4) of CGST Act, 2017?	a) As already discussed in S. No. 2 above, the ISD is required to distribute the credit in the manner provided in section 20 of CGST Act, 2017 and it is the recipients of credit, who are liable to comply with the conditions for being eligible to the input tax credit under section 16 or section 17 of CGST Act, 2017. b) Accordingly, it is clarified that ISD should distribute the entire input tax credit available to it for distribution to the recipients of credit to whom it is attributable to, and it is such recipients of credit who are required to make reversals of input tax credit under section

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		17(1) or section 17(2) of CGST Act, 2017 read with rule 42 and rule 43 of CGST Rules, 2017 or under section 17(4) of CGST Act, 2017 read with rule 38 of CGST Rules, 2017, as the case may be.
5.	Whether the amount declared in an invoice, credit or debit note, issued by a registered person having same PAN and State code as the ISD, to an ISD, under rule 54(1A) of CGST Rules, 2017, should be included in computation of "turnover in State" or "turnover in Union territory" under section 2(112) of CGST Act, 2017?	a) Rule 54(1A) of CGST Rules, 2017 provides for issuance of an invoice, credit note, debit note by a regular registrant, having same PAN and registered in the same state as the ISD, to the ISD, to transfer input tax credit in respect of credit pertaining to input services attributable to one or more distinct persons and then such input tax credit could be further distributed by the ISD to other distinct persons to whom the service is attributable to, in the manner provided in rule 39(1) of CGST Rules, 2017. b) Further, clause (b) of rule 54(1A) of CGST Rules, 2017 provides that the taxable value in the invoice issued under clause (a) shall be the same as the value of the services whose credit is sought to be transferred to the Input Service Distributor. c) The said provisions were brought prima facie to allow for payment of tax on reverse charge transactions by the regular registration having same PAN and State code as the ISD, to ensure that tax in respect of such transactions is discharged before the credit is transferred to the ISD, for further distribution to the other distinct person, who will then avail the credit. d) Therefore, rule 54(1A) of CGST Rules, 2017

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		is merely a credit transferring mechanism. e) Based on the above, it is hereby clarified that: i. The invoice, credit note, debit note issued by a registered person, having same PAN and registered in the same state as the ISD under rule 54(1A) of CGST Rules, 2017 is not in respect of the outward supply of the said person and therefore the amount reflected on such invoice or debit note or credit note does not qualify as "turnover in State "or "turnover in Union territory" under section 2(112) of CGST Act, 2017, of the said person, even though the same may be required to be declared in his FORM GSTR-1, to transmit the same to the ISD for further distribution. ii. Accordingly, the amount reflected on such invoice or debit note or credit note should not be included for the computation of "turnover in a State" or "turnover of Union territory" of the said person, issuing the said invoice, credit or debit note, to ascertain the amount of input tax credit required to be distributed to a 'recipient of credit' under section 20 of CGST Act, 2017 read with rule 39 of CGST Rules, 2017 and "Adjusted total turnover" under section 54(3) read with rule 89 of CGST Rules, 2017, for ascertaining the maximum refund amount permissible to the registered person.
6.	Whether the credit pertaining to input services	As already discussed in Sr. No. 5 above, rule 54(1A) of CGST Rules, 2017 is merely a credit

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	attributable to one or more distinct persons, which is transferred by the registered person having same PAN and State code as the ISD in terms of rule 54(1A) of CGST Rules, 2017, is to be treated as input tax credit of the said person having same PAN and same State code as ISD, and whether it can be included as "NET ITC" for the computation of refund amount under rule 89(4) and rule 89(5) of CGST Rules, 2017?	transferring mechanism. Accordingly it is clarified that credit pertaining to input services attributable to one or more distinct persons, which is transferred by the registered person, having same PAN and State code as the ISD, in terms of rule 54(1A), does not constitute input tax credit in respect of inward supply of such person and is merely required to be transferred to the ISD, as such, and therefore, the same does not qualify as "NET ITC" for the computation of refund amount under rule 89(4) and rule 89(5) of CGST Rules, 2017.
7.	Whether in respect of the credit pertaining to input services attributable to one or more distinct persons, which is transferred by the registered person having same PAN and State code as the ISD in terms of rule 54(1A) of CGST Rules, 2017, is the said person having same PAN and same State code as ISD, required to make reversals of input tax credit under section 17(1) or section	a) As already discussed in Sr. No. 5 and Sr. No 6 above, rule 54(1A) of CGST Rules, 2017 is merely a credit transferring mechanism, and that credit pertaining to input services attributable to one or more distinct persons, which is transferred by the registered person having same PAN and State code as the ISD in terms of rule 54(1A), is not input tax credit in respect of inward supply of such registered person. b) Accordingly, in respect of the credit pertaining to input services attributable to one or more distinct persons, which is transferred by the registered person having same PAN and State code as the ISD, in terms of rule

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	17(2) or section 17(4) of the CGST Act, 2017?	54(1A), it is clarified that: i. The said person having same PAN and same State code as ISD, is **not** required to make reversals of input tax credit under section 17(1) or section 17(2) or section 17(4) of CGST Act, 2017 and the said person is required to transfer the entire input tax credit available on account of payment of tax by it under reverse charge to the ISD for its further distribution to the recipients of credit. ii. It is such recipients of credit who are required to make reversals of input tax credit under section 17(1) or section 17(2) or section 17(4) of CGST Act, 2017, as the case may be, as already clarified in Sr. No. 4 above. Further, such recipients of credit may also include the said registered person having the same PAN and same state Code as the ISD, who had transferred the input tax credit to the ISD in the first place.

3. It is requested that suitable trade notices may be issued to publicize the contents of this Circular.

4. Difficulty, if any, in implementation of this Circular may please be brought to the notice of the Board.

Yours faithfully,

Gaurav Singh
Commissioner (GST)

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