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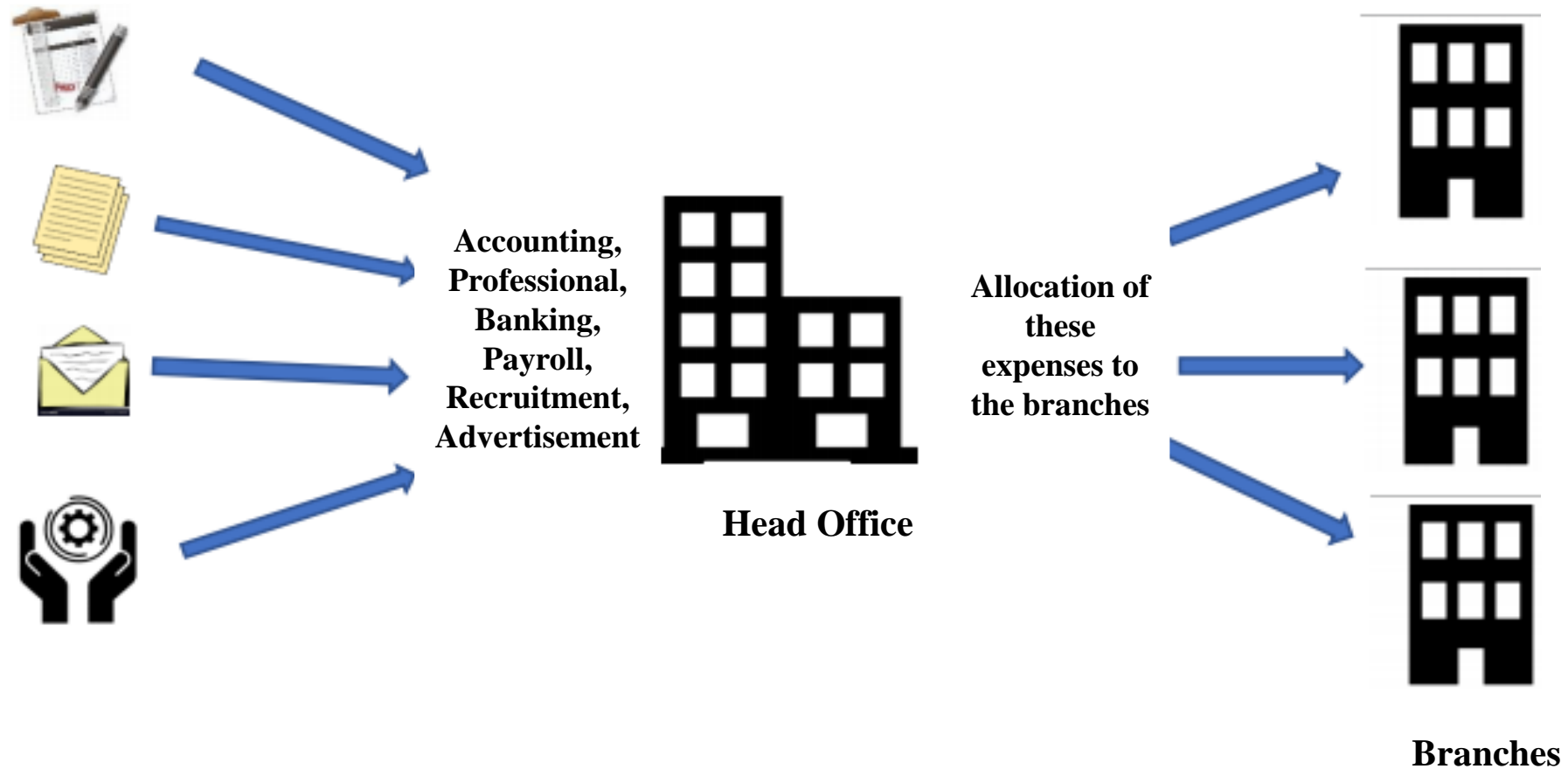
# ISD vs Cross Charge Mechanism: What & How to Follow?

# Background

- Concept of Input Service Distributor (ISD) is **inherited from Service Tax regime** while Cross Charge mechanism is a **new concept in GST regime**.
- For Third Party common services, it was **optional** to distribute ITC via *ISD mechanism* **or** *Cross Charge mechanism* for the period **1<sup>st</sup> July, 2017 to 31<sup>st</sup> March, 2025** [*Circular No. 199/11/2023-GST dated 17.07.2023*].
- Lot of **confusion in industry** in choosing correct mechanism for common cost allocation.
- ISD provision made **mandatory** vide **Finance Act, 2024** read with NN 16/2024- CT **w.e.f. 01.04.2025**.
- **Applicable to:**
  - i. Companies with two or more GST registrations.
  - ii. Groups with two or more companies.

# ISD vs Cross Charge

## Allocation of common expenses



# ISD vs Cross Charge

- **ISD:** Distribution of input tax credit (ITC) received on input services **consumed by branches/units** but invoice received in name of Head office. Examples include:
  - i. Accounting & Auditing Services by third party,
  - ii. Software expenses,
  - iii. Contract Staffing, etc.
- **Cross Charge:** Provision of services between distinct and related persons. Services from vendors are procured and consumed in Head Office for the support activities done for branches. Examples include:
  - i. Centralized functions like Accounting, Legal, Admin, HR etc. by Head Office,
  - ii. Rent and security services consumed in Head Office,
  - iii. Any goods consumed in Head Office, etc.

**Services involving dispute:** Server charges, Employees travelling for different branches, Event charges, Advertisement services, Hotel accommodation of employees, Salary cost etc.



# Comparison: ISD vs Cross Charge

## ➤ Comparison Table

Basis	Cross Charge	ISD
<b>Nature of Transaction</b>	Considered as a <b>supply</b> under GST (services provided between branches)	Not a supply, only <b>ITC distribution</b> done
<b>Applicable To</b>	Common services provided by Head Office (HO) to branches (e.g., IT, HR, admin, legal)	ITC received by the HO from vendors for services used by multiple branches
<b>Invoice Requirement</b>	A <b>Tax Invoice</b> must be raised for the value of services provided in terms of Section 31 of the CGST Act	Only a <b>Distribution Invoice</b> is issued (no tax invoice) in terms of Rule 54 of the CGST Rules
<b>GST Applicability</b>	GST is charged on the value of services provided between branches	No GST is charged, only ITC is passed on
<b>Registration Requirement</b>	No separate registration required	ISD requires a <b>separate GST registration</b>

# Action points

## ➤ **One-time action points:**

- i. Analyze the Purchase Register of all offices.
- ii. Segregation of expenses into Cross Charge mechanism vs ISD mechanism.
- iii. ISD registrations to be taken.
- iv. Communicate the vendors supplying services subject to ISD distribution, regarding new ISD GSTIN.
- v. Make required changes in the accounting software for tagging of invoices to consumption states and generation of reports relevant for ISD.
- vi. Training of staff to adopt the changes and test run the process for few months.

## ➤ **Regular compliances:**

- i. Issue two separate ISD invoices (eligible & ineligible ITC) each month to each branch.
- ii. Timely Scrutiny of Purchase Register for new vendor identification or new services from existing vendors and segregation of expenses into Cross Charge mechanism vs ISD mechanism.
- iii. For ISD registration, file monthly GSTR-6 by the 13th of next month.
- iv. Regular review of the allocation mechanism.

# Issues

- Department **may disallow such ITC to head office** if ITC is liable to be distributed via ISD mechanism but Cross Charge is done. [Similar issues raised in advance rulings]
- Department **may demand tax from head office on deemed support services** if expenses liable to be apportioned via Cross Charge mechanism but ITC is distributed through ISD mechanism.
- RCM payments and distribution of such RCM ITC.
- Basis for valuation of Cross Charge services.
- Basis for apportionment of expense under Cross Charge to various branches.
- Turnover of which period is to be considered for ITC distribution via ISD as well as Cross Charge?
- Treatment of Salary expenses incurred by head office.
- Distribution of ITC in case of exempt supplies (in line with Rule 42 & Rule 43 reversals).

# THANK YOU

See You Next Time



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