

Input Service Distributor: Seven Answers from Circular 260 Every Multi-Location Business Should Read

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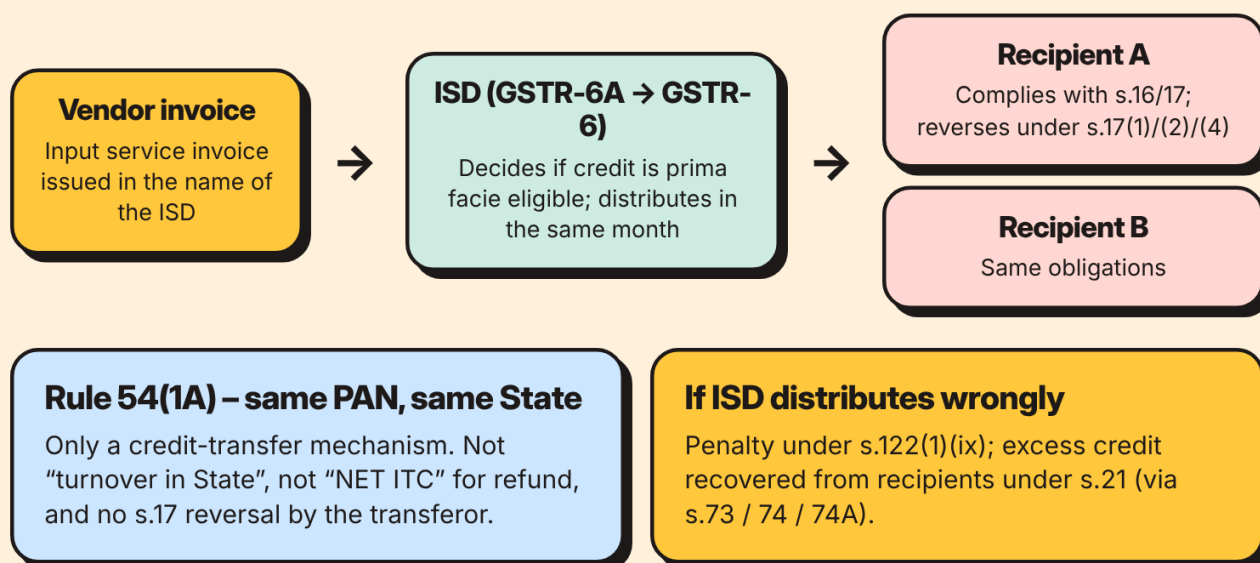
The graphic features a red background on the left and a light blue circular shape on the right. In the red area, there is a small black circle with 'ISD' in white, followed by the title 'Input Service Distributor Rules' in large white font, and the subtitle 'Who reverses, who complies' in smaller white font. The light blue circle contains the text 'CIRCULAR NO.' in small black font, '260' in large black font, and '/2026-GST' in smaller black font. At the bottom, a black bar contains the text 'Arpan Bohra & Co., Chartered Accountants' on the left and 'CBIC · 26.10.2026' on the right.

A software group with its head office in Gachibowli, development centres in other States and a separate registration for each business vertical buys common services — cloud licences, audit, legal retainers — at one place and wants the credit to reach the units that benefit. Since ISD became mandatory for distributing such credit, three recurring doubts have surfaced: does each vertical need its own ISD, who has to satisfy section 16, and what exactly does "distribute in the same month" mean. Circular No. 260/06/2026-GST, dated 26 October 2026, answers seven questions on sections 2(61) and 20 and rules 39 and 54(1A) of the CGST Rules, 2017.

In short: more than one ISD registration per State is permitted; the ISD distributes and the recipient of credit complies with sections 16 and 17 and makes the reversals; credit is "available for distribution" once the ISD ascertains it as prima facie eligible; and credit transferred under rule 54(1A) is only a transfer mechanism, not turnover or NET ITC.

Where each obligation sits in the ISD chain

ISD distributes; recipients comply and reverse



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The clarifications

1. Is a separate ISD registration needed for each vertical or place of business?

Under section 25(2) and 25(4), separate registrations of verticals or places of business in a State are distinct persons. The Circular reads the provisions as placing **no bar** on more than one ISD registration for each vertical or place of business in a State. Each registrant that receives input service invoices for or on behalf of distinct persons, liable to be distributed under section 20, must obtain ISD registration. Under rule 39(1), credit goes only to the distinct person to whom it is attributable.

2. Who must satisfy section 16 conditions — ISD or recipient?

The ISD distributes in the manner of section 20. **The recipient** is liable to comply with the conditions for eligibility, including sections 16 and 17 and the rules. If the ISD distributes in contravention of section 20, it is liable to penalty under section 122(1)(ix) (₹10,000 or the amount of credit irregularly distributed, whichever is higher, as stated in the Circular); where this results in excess distribution, section 21 permits recovery from recipients, with interest, through sections 73, 74 or 74A.

3. What does "distribute in the same month" mean (rule 39(1)(a))?

The Circular distinguishes the receipt of an invoice in FORM GSTR-6A from the credit becoming *available for distribution*. Because the ISD sees the invoice first and is best placed to judge eligibility, credit is "available for distribution" only when the ISD ascertains it to be prima facie eligible. It must then distribute in the month of that ascertainment, separately as eligible and ineligible credit under rule 39(1)(g), and report in FORM GSTR-6.

4. Who makes section 17(1), 17(2) or 17(4) reversals?

The ISD distributes the entire credit to the recipients to whom it is attributable; the **recipients** make reversals under section 17(1) / 17(2) read with rules 42 and 43, or section 17(4) read with rule 38.

5. Is an invoice under rule 54(1A) part of "turnover in State"?

Rule 54(1A) lets a regular registrant with the same PAN and State as the ISD issue an invoice, credit note or debit note to the ISD to transfer credit — including credit on reverse-charge services. The Circular calls this "merely a credit transferring mechanism". The amount, though it may be declared in the issuer's GSTR-1, is not an outward supply, so it does not form part of "turnover in State" under section 2(112), nor of "adjusted total turnover" for the refund formula under section 54(3) read with rule 89, nor of the base for section 20 / rule 39 distribution.

6. Is credit transferred under rule 54(1A) "NET ITC" for refund under rule 89(4) and 89(5)?

No. It is not ITC of an inward supply of the transferor and does not qualify as NET ITC.

7. Does the transferor reverse under section 17?

No. The same-PAN, same-State person transfers the entire credit available on reverse-charge tax paid to the ISD. The recipients of credit then make section 17 reversals; that may include the transferor itself if it is among the recipients.

Practical reading

Aspect	Question	Position stated
Number of ISD registrations per State	Is one ISD per State enough?	More than one is not barred
Eligibility under section 16	ISD or recipient?	Recipient
Timing	Month of invoice receipt in GSTR-6A?	Month in which ISD ascertains prima facie eligibility
Rule 54(1A) invoice	Turnover / NET ITC?	Neither
Section 17 reversals	Transferor, ISD or recipient?	Recipients only

Where views can differ

- **"Prima facie eligible" is an ISD-level judgement.** The Circular places the ascertainment burden on the ISD, yet leaves final section 16 compliance with the recipient. In a dispute, whether an ISD error in ascertainment affects the recipient's entitlement, or only exposes the ISD to section 122(1)(ix), will depend on the facts (litigative).
- **Refund-formula effect.** For exporters using rule 89, excluding rule 54(1A) amounts from turnover and from NET ITC changes the computation; past refund claims that included these amounts may need review. The Circular does not state whether it is clarificatory for past periods (confirm).
- **Mixed-use credit.** Because recipients make the section 17 reversals, a recipient with exempt or non-business supplies carries the reversal even when the ISD sits elsewhere.

Risk view

Issue	Risk
Distribution of credit to a recipient to whom it is not attributable	High: section 122(1)(ix) penalty and section 21 recovery
Delay in distributing after ascertainment	Moderate: rule 39(1)(a)
Including rule 54(1A) invoices in turnover / NET ITC	Moderate for refund claimants
Not separating eligible and ineligible credit in GSTR-6	Moderate: rule 39(1)(g)

Frequently asked questions

Can one entity have two ISD registrations in the same State? The Circular finds no bar where separate verticals or places of business are separately registered.

Does the ISD claim ITC itself? No; ISD distributes. The Circular notes the ISD is not required to avail credit itself, but is the best placed to ascertain eligibility.

Do reverse-charge services count? Yes, invoices for services liable to reverse charge are within section 2(61); rule 54(1A) was introduced to ensure the tax is paid before credit is transferred.

Does the section 17(5) blocked credit go to recipients? It is to be distributed separately as ineligible credit under rule 39(1)(g), as the Circular describes.

Where is the distribution reported? FORM GSTR-6, on the basis of GSTR-6A, under rule 65.

Sources

- CBIC Circular No. 260/06/2026-GST dated 26.10.2026 — [CBIC website](#).
- Sections 2(61), 20, 21, 25 and 122(1)(ix) CGST Act, 2017; rules 39, 54(1A), 65 and 89 CGST Rules, 2017.

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