



NPV & ASSOCIATES
Chartered Accountants

CROSS CHARGE AND INPUT SERVICE DISTRIBUTOR

CONCEPT OF CROSS CHARGE

Under the CGST Act, taxable event is Supply. The scope of supply is defined u/s 7 of CGST which gives reference to Schedule I, II and III.

Extract of Schedule I: Activities to be treated as supply even if made without consideration (2) Supply of goods or services or both between related persons or between distinct persons as specified in section 25, when made in the course or furtherance of business.

In this articles we are covering aspects related to different branches of an entity only. Related persons are not covered.

Extract of Sec 25

(5) Where a person who has obtained or is required to obtain registration in a State or Union territory in respect of an establishment, has an establishment in another State or Union territory, then such establishments shall be treated as establishments of distinct persons for the purposes of this Act.

It means Supply of goods or services or both between branches of different state/union territories in the course of furtherance of business is treated as Supply.

Now we need to determine value of such good/service as per Valuation Rules 28, 30 and 31.

Rule 28 of CGST Rules reads as under:

The value of the supply of goods or services or both between distinct persons as specified in sub-section (4) and (5) of section 25 or where the supplier and recipient are related, other than where the supply is made through an agent, shall-

- Be the open market value of such supply;
- If the open market value is not available, be the value of supply of goods or services of like kind and quality;
- If the value is not determinable under clause (a) or (b), be the value as determined by the application of rule 30 or rule 31, in that order.

Provided that where the recipient is eligible for full input tax credit, the value declared in the invoice shall be deemed to be open market value of the goods or services.

Rule 30 provides for value as 110% of the cost of production or manufacture or the cost of acquisition of such goods or the cost of provision of such services.

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In the case of Cross charge , if HO follows Rule 30 then following cost can be included

- Input Service consumed by HO
- Inputs consumed by HO
- Depreciation on Capital goods used by HO
- Salary of employees working in Central teams (Reference Advance ruling in case of Columbia Asia Hospitals Pvt. Ltd.)

Rule 31 provides value shall be determined using reasonable means consistent with the principles and the general provisions of section 15 and the provisions of this Chapter.

Manner of distribution of credit is not provided in any GST act or rules. However, in general scenario people are distributing it based on turnover of particular period for which return is filed. Alternative methods are also possible.

CONCEPT OF INPUT SERVICE DISTRIBUTORS

As per section 2(61) of the CGST Act, “Input Service Distributor” has following characteristics

- It is an office of the supplier of goods or services or both
- It receives tax invoices issued under section 31 towards the receipt of input services
- It 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
- Such document is issued to a supplier of taxable goods or services or both having the same Permanent Account Number as that of the said office.

Summary of Manner of Distribution of credit through ISD mechanism - Section 20 of CGST Act and Rule 39 of CGST Rules, 2017

- The ITC available for distribution should be distributed monthly and details to be furnished in GSTR 6.
- This includes all credits i.e. eligible and ineligible.
- Credit to be distributed even though recipient might not be registered.
- Content of documents to be issued for transfer of ITC should be as per Rule 54 of the GST rules.
- The amount of credit shall not exceed the amount available for distribution.
- Credit should be distributed to one or more recipient to whom such input service is attributable based on their turnover in relevant period.

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Relevant Period

Situation	What is relevant Period
If the recipients of credit have turnover in their States or Union territories in the financial year preceding the year during which credit is to be distributed	The said preceding financial year.
If some or all recipients of the credit do not have any turnover in their States or Union territories in the financial year preceding the year during which the credit is to be distributed	the last quarter for which details of such turnover of all the recipients are available, previous to the month during which credit is to be distributed;

$$C1 = (t1 / T) \times C$$

C = amount of total credit to be distributed.

t1 = turnover of recipient R1 during relevant period

T = the aggregate of the turnover, during the relevant period, of all recipients to whom the input service is attributable.

C1= the input tax credit that is required to be distributed to recipient R1 (whether registered or not)

The ISD shall be required to distribute the credit as under:

Credit available with ISD	Recipient unit is located in same state as that of ISD	Recipient unit is located in same state as that of ISD
Central Tax	CGST	IGST
State Tax	SGST	IGST
UT tax	UTGST	IGST
Integrated Tax	IGST **	IGST

**It's important to note that, section 20 permits distribution of Integrated Tax either as IGST or CGST or SGST. However, Rule 39(1) (e) permits distribution of ITC of integrated tax as IGST only.

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Distinguish between Cross Charge and ISD

Particulars	ISD	Cross Charge
Purpose	When service is provided by third party to various branches but invoice is raised on only one. So to transfer credit concept of ISD is sued	One GSTIN provides services (directly/indirectly) to another GSTIN
Act and Rules	Sec 20 of CGST Act and read with rule 39 of CGST Rules.	Schedule I (Entry no 2) and for valuation Rule 28,30 and 31
Whether there is supply	No. There is no supply between branches/distinct person. Its only a mechanism to distribute credits	Yes. There is outward supply
Who are the recipients	It can be received by all or some depending on who consumes services	Generally, all GSTIN registered as distinct person are recipient
How to compute ITC to be distributed	Based on the turnover of preceding FY or preceding quarter	No method prescribed.
GST return	GSTR 6	GSTR 3B and GSTR 1
Examples	Statutory audit, Software license fees	Security service or business support service consumed at HO

In our view Cross Charge and ISD both are mandatory and it should be followed.

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For any further queries you can mail to us on priyal.shah@npvca.in

DISCLAIMER

Views expressed in this article are our own and it does not represent any opinions regarding matter covered in an article. It should be used only for knowledge purpose.

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