

CBIC notifies effective date for applicability of amendments related to ISD and penalty on specified manufacturers

07 August 2024

Background

- The Finance Act 2024 (Interim Budget) had introduced amendments to the definition and procedures related to the Input Service Distributor (ISD) under the Goods and Services Tax regime. These include mandatory ISD registration to distribute the common input services, modification in the manner of distribution and broadening the scope of ISD definition to include invoices for services subject to the Reverse Charge Mechanism (RCM). Additionally, a penalty for the non-registration of machines used by the manufacturers of tobacco, pan masala, and similar items was introduced.
- The Central Boards of Indirect Tax and Customs (CBIC), vide Notification No. 16/2024-Central Tax dated 06 August 2024, has notified the effective date of ISD-related amendments from 1 April 2025, while the penalty provision will be effective from 1 October 2024.

Highlights of the amendments

Amendments in ISD provisions

- The definition of the ISD widened to include the invoices liable to tax under the RCM in addition to distribution of credit for common input services.
- Mandatory ISD registration for the entities registered in multiple states to distribute the common ITC of input services procured from third parties, including transfer of RCM credit, to such distinct persons.
- These amendments will be effective from 1 April 2025.

Insertion of penalty provision for tobacco, pan masala manufacturers

- The penalty amounts to INR 1 lakh on account of the failure to register the machines used for manufacturing tobacco, pan masala, and other similar items, as per the special procedure specified in the GST law.
- The amendment will be effective from 1 October 2024.

Our comments

To address the ambiguity related to applicability of ISD, the GST Council, in its 50th Council Meeting, had recommended to mandate the ISD registration for distributing the common ITC. Consequently, the necessary amendments were introduced in the Interim Budget 2024 to give effect to such recommendations, which have now been notified.

Considering the mandatory compliance, businesses operating in multiple states need to revisit their current practices along with related processes, and proactively prepare for migration from existing mechanism to avoid any future litigation.

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