
Standard Operating Procedure (SOP) For Input Service Distributor (ISD) Compliance Under GST - Basics

Contents

1. OBJECTIVE	1
2. ACCOUNTING AND COMPLIANCE CHANGES	1
a. Creation of ISD Unit in Books of Accounts	1
b. GST Returns Filing	3
3. COMMON SERVICES FOR ISD BILLING	3

1. OBJECTIVE

This SOP outlines the structured procedures and activities required for accounting and business operations after obtaining ISD registration under GST. The goal is to ensure compliance with GST laws, accurate distribution of input tax credit (ITC), and effective record-keeping.

2. ACCOUNTING AND COMPLIANCE CHANGES

a. Creation of ISD Unit in Books of Accounts

- a. Establish a **separate ISD unit** in the books of accounts instead of maintaining a separate ledger.
 - b. Create the specific ledgers under in the system in addition to existing ledger:
 - i. **In the books of ISD – “Output ISD GST”** (to record ITC distributed by ISD to various branches).
 - ii. **In the books of Branches – “Input ISD GST”** (to be maintained in branch books to record ITC received from ISD).
 - c. Ensure accurate classification of ISD transactions for tax compliance and auditing.
 - d. The Credit to the branches has to be distributed through ISD Invoice, the format of the invoice is attached in Annexure-1 to this document.
 - e. Follow the following entries in the system on different occasions relating to the ISD Transactions
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Nature of Transactions	Entry in the Books [Type: Services of FCM]	
In the Books of the ISD Unit		
Receipt of Invoice for Audit Fees	Audit Fees A/c Dr	
	Input IGST A/c Dr	
	To Auditor A/c	
Transferring the Input Credit using ISD Invoice	Branch – TN A/c Dr	Branch – KA A/c Dr
	To Audit Fees A/c	To Audit Fees A/c
	To Output ISD CGST& SGST A/c	To Output ISD IGST A/c
Adjustment of Credit with distributed	Output ISD CGST& SGST/IGST A/c	
	To Input IGST A/c	
In the Books of the Branches		
Receipt of ISD Invoice from HO	Audit Fees A/c Dr	
	Input ISD IGST/CGST & SGST A/c Dr	
	To HO A/c	

Nature of Transactions	Entry in the Books [Type: Services of RCM]	
In the Books of the ISD Unit		
Receipt of Invoice for Royalty	Royalty A/c Dr	
	To XYZ Inc. A/c	
	Input IGST A/c Dr	
	To Output ISD RCM IGST A/c	
Transferring the Input Credit using ISD Invoice	Branch – TN A/c Dr	Branch – KA A/c Dr
	To Royalty A/c	To Royalty A/c
	To Output ISD CGST& SGST A/c	To Output ISD IGST A/c
Adjustment of Credit with distributed	Output ISD CGST& SGST/IGST A/c	
	To Input IGST A/c	
Payment of RCM	Output ISD RCM IGST A/c Dr	
	To Bank A/c	

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b. GST Returns Filing

- File **GSTR-6** monthly to distribute ITC to eligible units within the company.
- Ensure accuracy in reporting invoices received and ITC distributed.
- Cross-verify tax payments and match ITC records with GSTR-2B.

3. COMMON SERVICES FOR ISD BILLING

The following services should be billed to the ISD registration for proper ITC distribution:

Service Category	Examples
Advertising and Marketing	Digital marketing, print media, event sponsorships
IT and Software Maintenance	Software licenses, cloud storage, cybersecurity
Legal and Consultancy	Legal advisory, tax consulting, compliance audits
Audit and Accounting	Statutory audit, internal audit, bookkeeping
HR and Recruitment	Employee hiring, payroll processing, training
Business Promotion & Branding	CSR activities, sponsorships, trade fairs
Office Rentals	Lease agreements, property maintenance
Telecommunication & Internet	Office broadband, mobile connections
Training & Development	Employee skill development, leadership training
Insurance Premiums	Business insurance, liability insurance
Security & Housekeeping	Facility management, security services
Professional Membership Fees	Memberships in industry associations
Travel & Accommodation	Flight bookings, hotel stays
Licensing & Subscription Fees	SaaS applications, cloud computing
Courier & Freight Charges	Logistic expenses for business supplies
RCM Services	Payments to Director apart from Remunerations, ROC Fees, Royalties, Import of services