RCM Credit Allocation Through ISD: Statutory Intent Undermined by Systemic and Technical Hurdles

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Despite legislative clarity under Section 20 of the CGST Act and Section 5 of the IGST Act, the design limitations of the GSTN portal make distribution of Input Tax Credit (ITC) through the Input Service Distributor (ISD) mechanism, particularly for Reverse Charge Mechanism (RCM) supplies, an administrative conundrum.

This article dissects statutory intent, illustrates systemic hurdles, and recommends administrative and technological remedies.

I. Introduction: Legislative Vision vs Portal Reality

The gap between statutory framework and portal capability continues to hinder GST procedural compliance. Section 20 of the CGST Act provides for seamless ITC distribution by ISD —encompassing RCM liabilities—yet the GSTN's current architecture reduces the ISD mechanism to an exercise in workaround tactics, not legislative fidelity.

The moot question is "can a vendor issue Tax Invoice for common services procured for use by more than one registration of a registered person on any registration other than ISD registration of such registered person?"

The question is pertinent since w.e.f. 01.04.2025 it is mandatory for a registered person having multiple registration to obtain ISD registration for distribution of ITC on inward supply of services procured centrally for use by more than one registration and Section 20 envisages payment of RCM liability for invoice on ISD registration to be made from the regular registration since presently portal does not permit any tax payment under ISD login.

II. Legal Framework: What the Law Provides

- Section 20(2), CGST Act (2025 update): Permits ITC distribution of services—including those under RCM—paid by distinct persons.
- Sections 5(3) and 5(4), IGST Act, 2017: Governs inter-State RCM supplies.
- Rules 39, 43, 54, 65 & 97, CGST Rules: Address input segregation, invoicing, record-keeping, distribution protocols, and electronic ledgers.
- Section 122, CGST Act: Prescribes penalties for erroneous credit distribution, adding pressure to already complex compliance.

Despite these provisions, since as of today the portal does not allow RCM tax payment via ISD login—creating a procedural burden unanticipated by law and additional cash flow problem for businesses as Distribution of ITC credit for inward supply liable to RCM is deferred to next month or quarter.

III. Practical Illustration: ABC Ltd and the June 2025 Conundrum

ABC Ltd, registered both as an ISD and a regular taxpayer in Maharashtra doing monthly compliance, receives the following invoices for common input services meant to be allocated between its Maharashtra and Gujarat units:

Vendor	State	Invoice No.	Date	Taxable Value	Tax Components
Vendor A	Maharashtra	25	10.06.2025	₹10,000	CGST ₹900, SGST ₹900
Vendor B	Gujarat	12	28.06.2025	₹50,000	IGST ₹9,000

Assuming that the invoices are raised on ISD Registration by the Vendors just as for inward supply of services liable to forward charge, they will appear in the ISD's GSTR-2B for June, downloaded on 13.07.2025. Though the tax under RCM liability is paid by registered person under regular GSTIN on 15.07.2025. However, credit distribution is entangled in a maze of procedural anomalies:

1. RCM tax payment is not possible from the ISD dashboard, necessitating use of regular registration and PMT-06.
2. Self-invoicing by the regular registration to ISD occurs post-facto, pushing distribution into July return leading to additional cash flow requirement by Registered Person.
3. State-matching logic in the portal blocks ISD from availing IGST where vendor and recipient GSTIN states coincide.
4. Dual reporting in GSTR-1 by regular registration and GSTR-6 by ISD registration across different months complicates reconciliation and audit trails.

IV. Legal Fiction vs Functional Friction

- Rule 65 envisions timely credit distribution through GSTR-6, yet portal constraints create delays beyond the control of the taxpayer.
- Maintaining parallel registers for intra- and inter-state allocations across ISD and regular GSTINs strains internal audit frameworks.
- Section 122 exposure looms over minor clerical errors that are virtually inevitable

under the current design.

V. Recommendations: Bridging Law and Functionality

A. CBIC Clarifications Required

1. That though logically just like the tax Invoice for supply of services liable to Forward Charge which needs to be raised only on ISD Registration even invoice for such supply liable to RCM also needs to be on the same registration only. However, due to functionality restriction Until ISD dashboards permit tax payment, RCM invoices for input services can be booked and paid under regular registration, with ITC subsequently distributed via ISD as CGST and SGST.
2. Delayed credit distribution arising by ISD registration later in the payment month vs invoice month shall not be deemed non-compliance under ISD rules.
3. Self-invoicing by regular registration should be deemed valid for ITC distribution purposes.

B. GSTN System Overhauls

- Integrate RCM payment functionality into ISD dashboard or allow ISD-specific PMT-06 creation. This will also reduce additional cash flow requirement of the dealers who receive inward supply of services liable to RCM which are required to be distributed.
- Reconfigure ISD GSTR-2B logic to consider place of supply over GSTIN-state alignment for IGST credits.

VI. Conclusion

The ISD scheme under GST was intended to simplify credit allocation across organizational verticals. Instead, businesses are trapped in a compliance spiral induced not by legislative ambiguity but by technical inertia. Until GSTN evolves to match statutory sophistication, clarificatory circulars and administrative leniency must serve as the scaffolding for compliance integrity. But the present system as it stands only creates one more additional item to be included while preparing reconciliation of turnover as per annual return in GSTR9 with Audited Financial in GSTR9C also.