

## INTUNE INDIRECT

### MADRAS HIGH COURT CLARIFIES TIMING OF ITC DISTRIBUTION BY ISD – INTERPRETS RULE 39(1)(A) IN HARMONY WITH SECTION 16

The Hon'ble Madras High Court in ***Reliance Jio Infocomm Ltd v. Union of India & Ors. (WP No s .27038 and 28371 of 2025)*** examined the validity and interpretation of Rule 39(1)(a) of the CGST Rules, 2017 relating to the timing of distribution of Input Tax Credit (ITC) by an Input Service Distributor (ISD). The Court has clarified that distribution of credit must be understood in the context of the statutory entitlement to ITC under Section 16 of the CGST Act and not merely upon receipt of the underlying invoice.

#### Background & Key Findings:

The petitioner challenged the validity of Rule 39(1)(a) of the CGST Rules which requires ITC available for distribution by an ISD in a particular month to be distributed in the same month in which the underlying input service invoice is received. The dispute arose pursuant to show cause notices issued by the tax authorities alleging contravention of the rule on the

ground that the petitioner had distributed ISD credit to its branch registrations in months subsequent to the receipt of the underlying input service invoices.

The petitioner contended that such a requirement was impractical and inconsistent with the scheme of the CGST Act. According to the petitioner, before distributing credit an ISD must first verify whether the conditions prescribed under Section 16(2) of the CGST Act such as possession of a valid tax invoice, receipt of services, and payment of tax by the supplier have been satisfied.

It was argued that if credit were required to be distributed merely based on the date of the invoice, taxpayers may be compelled to distribute credit even before the statutory eligibility conditions are fulfilled, which could lead to operational and legal difficulties.

### **Ruling:**

The Madras High Court declined to strike down Rule 39(1) (a) of the CGST Rules. However, it clarified the correct interpretation of the provision by harmoniously reading it with Sections 16 and 20 of the CGST Act. The Court observed that the expression “input tax credit available for distribution in a month” appearing in Rule 39(1)(a) cannot be interpreted to mean that credit must be distributed merely upon receipt of an invoice. Instead, ITC becomes “available for distribution” only when the statutory conditions prescribed under Section 16(2) of the

CGST Act are satisfied.

The Court further noted that Section 20 deals with distribution of credit, and not merely the distribution of invoices. Accordingly, the distribution mechanism under the ISD framework is triggered only when the registered person becomes legally entitled to the ITC under the Act. The Court held that an interpretation requiring distribution of credit solely based on the invoice date—even before the eligibility conditions are satisfied—would lead to anomalies and would be inconsistent with the statutory framework governing ITC.

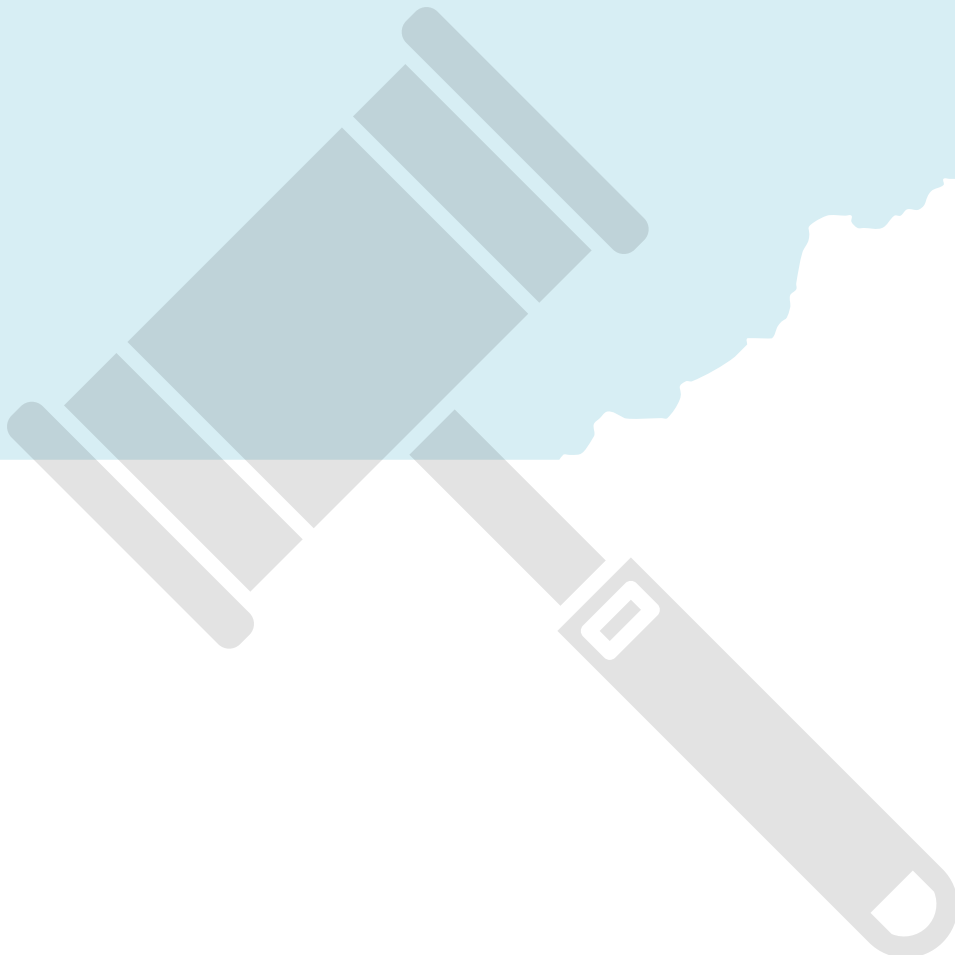
Thus, Rule 39(1)(a) was upheld, but interpreted in a manner consistent with the scheme of the CGST Act.

### **VA Comments:**

This ruling provides important interpretational clarity regarding the functioning of the ISD mechanism under GST. While the Court has upheld the validity of Rule 39(1) (a), it has effectively clarified that the timing requirement must be understood in the context of the statutory entitlement to ITC under Section 16. In practical terms, the judgment indicates that credit becomes eligible for distribution only after it becomes legally available under the CGST Act.

The ruling is particularly relevant for large organisations operating centralized procurement structures where

input services are received at head offices and ITC is subsequently distributed to multiple GST registrations through the ISD mechanism. Taxpayers dealing with disputes relating to delayed ISD distribution may rely on this decision to argue that the relevant trigger for distribution is the availability of eligible credit under Section 16 rather than the mere date of the underlying invoice.



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