



# KARNATAKA STATE CHARTERED ACCOUNTANTS ASSOCIATION<sup>(R)</sup>



Date: 18<sup>th</sup> September 2019

To,

Smt. Nirmala Sitharaman

Hon. Union Minister of Finance

Government of India

North Block

New Delhi

Hon'ble Madam,

***Sub: Representation regarding manner of taxability of services provided by an office of an organisation in one State to the office of that organisation in another State***

The Karnataka State Chartered Accountants Association (R) (in short 'KSCAA') is an association of Chartered Accountants, registered under the Karnataka Societies Registration Act, in the year 1957. KSCAA is primarily formed for the welfare of Chartered Accountants and represents before various regulatory authorities to resolve the professional concerns faced by chartered accountants and business community.

We have written to your good selves many a times populating issues and possible solutions. We have also proactively involved in suggesting means and practical methodologies on the adoption and implementation of the policies.

We are aware that GST Council is considering to provide clarification on the taxability of services provided by an office of an organisation in one State to the office of that organisation in another State. We presume it apt at this juncture, to submit the following representation of points for your approbation and appraisal:

**I. Whether its mandatory to distribute credit by following ISD procedure**

1. Schedule I of Section 7 provides supply of goods or services or both, between related persons or between distinct persons, as specified in Section 25, when made

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in the course or furtherance of business, is considered a taxable supply, even when without consideration. Accordingly, a charge is created for supply of goods or services between branches of the same organisation. In this regard, similar to invoices being raised for stock transfer of goods, the supplier will be required to raise an invoice for stock transfer of services rendered by one branch to another.

2. However, Section 20 provides mechanism of distribution of credit by following the input service distribution procedure. In this regard, input service distribution should be considered as an option and not mandatory procedure to distribute the credit. So long as the credit is either distributed or transferred by raising invoice for services rendered by one branch to another, it should be considered as sufficient compliance.

## II. Whether services rendered by head office would include internal services such as its common management cost including employee time cost

3. While Schedule I of Section 7 provides 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, to be considered as a taxable supply, it should not be presumed that all expenses at the head office including common management cost, be considered in a manner that the said office is rendering services to other branches of that organisation.
4. To illustrate, the board of directors have oversight on the entire organisation. Merely because they operate from the corporate office or head office, it does not mean that the said corporate/ head office renders services to their respective branches. Every organisation maintains cost centre and such common costs, are ordinarily accounted in the respective cost centre. In this regard, their salary or common costs, while they are incurred, are accounted in the relevant cost centre, attached to the branch they pertain. Given that the costs incurred are accounted at respective branches, it cannot be said as if the corporate office or head office would render services to branches. To illustrate in other words, let us consider an



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event organised by Bangalore Branch in held in a hotel in Goa. The event cost can be accounted in Bangalore cost centre in the same manner, where the cost of employees sitting in head office would be accounted as such. However, this benefit will be available only for internal costs and not for external costs such as legal, accounting, etc.

5. Accordingly, it be clarified that so long as the internal costs attributed to a particular branch are accounted based on allocated costs centre, it should not be considered that one branch renders services to another branch, for such common costs.
6. Further, on the valuation, given that Rule 28 provides for acceptance of value declared on the invoice, to be open market value, the valuation should not be questioned, whether on reasonableness or otherwise, so long as the recipient location is entitled to full credit. In the absence, the purpose of Rule 28 would be defeated as the said Rule has been provided to reduce the regressive nature of valuation of services for inter-branch services.
7. Alternatively, an optional scheme may be provided to assesseees having multiple registrations that 2% of the credit taken by one branch, be considered as common credits and the said Branch, should allocate this credit to other branches, either by way of an invoice under Section 31 or be distributed in the manner prescribed in Section 20, as input service distributor. This benefit would be available only for common credits and not for credits pertaining to one branch, availed in another location. Adoption of this option would mean sufficient compliance to the need to distribute credit for common



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We request you to consider the above, while providing a clarification on inter-branch service. We consider that this would provide a purposive meaning to taxability of inter-branch services and go a long way to reduce potential litigations.

Yours sincerely,

**For Karnataka State Chartered Accountants Association ®**

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President

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