



Impact of Goods and Service Tax (GST) On Hotel Industry in India

MISS. P.VARALAKSHMI
Research scholar

PROF. K.SANTHA KUMARI
Professor, Department of Economics, S.V. University, Tirupati, Andhra Pradesh., India,

Abstract:

Athithi devo bhavha” (Guest is God) has been one of the central tenets of Indian culture since times immemorial. Today, hospitality sector (which includes tourism also) is one of the fastest growing sectors in India and grew at the rate of 8 per cent between 2007 and 2016. The boom in travel and tourism has led to the further development of hospitality industry. Consequently the hospitality industry is expanding globally and promoting its growth in a changing multicultural environment. Hotels contribute to the output of goods and related services which build the well-being of their nations and communities. India is worlds most attractive tourism spot. India has different cultures among which have varieties of food..Attracted by these varieties of foods domestic and international touristsaspire to visit.

In order to make use of this attraction of the national and international tourists,and also streameline the tax system, Government of India initiated the Goods and Services Tax bill in the Parliament on 1st July 2017.This introduction of GST affected the different taxes levied by the State governments of the respectors tourist places. To study whether the GST system has increased or decreased the burden on hotel managements as well as the tourists,the present study has been taken up.

Keywords: Goods and Service Tax, Impact, Hotels, Contribute, Tourist, Development

1. Introduction

Goods and Services Tax(GST) is an indirect tax levied at national level and it nullifies all indirect taxes. It is a comprehensive tax levied on sale, manufacturing and consumption of goods and services. Regime of GST was started by Vishwanath Prathap Singh in 1986 during Rajiv Gandhi government but it failed to get approval in the Lok Sabha. Finally GST Act was passed on 29th march 2017 and it came into force on 1st July 2017. Rules regulation and rates governed by GST council comprise all state and central finance ministries.

“One tax for entire nation”: A good advantage of GST is that tax on tax is removed and the cost of goods decreased. The whole concept of GST for levying tax is based on 5 slabs 0%, 5%, 12%, 18% and 28%. GST removed the cascading effect (tax on tax) on the sale of goods and services which helps to decrease the cost of goods and services. Activities like returns, refund registration response need to be done on the GST portal. This helps to speed up GST process. The 3 types of GST are, CGST: collected by central government on intra-state sale. SGST: collected by state government on intra state sale and IGST.

The hotel industry spends a lot of money on construction and renovation works. They have to move with the times in order to remain competitive and to attract more and more customers. The money paid as taxes on the construction activities cannot be used as input credit to set off the taxes paid on the services offered by the hotels and restaurants. The R&D cess which is applicable on technical know- how fees

and franchise agreements in the industry is likely to become a part and parcel of GST. The restaurant industry has been burdened with high and multiple taxations. However, it is felt that liquor should be included in GST. Exempting it defeats the very purpose of bringing in a uniform single tax structure. This allows the states to have their own taxes without a cap with separate accounting requirements and results in double compliance for the restaurant / hotel industry. This is neither beneficial for 'Ease of doing business' nor for the customers.

"Everybody likes consolidation of taxes as it leads to greater transparency and will help guests and buyers understand the overall costs. We welcome the development," said Raj Rana, CEO, South Asia, for hotel group Carlson Rezidor. "Some states have luxury tax and that impacts room rates. If India aspires to be competitive, then the tax structures too need to be competitive."¹ opined Rashi.

2. Review of Literature

A few main reviews of literature on the impact of goods and service tax in India on hotel industry are follows:

Faizanbhai (2019), in his paper entitled "Impact of GST on various aspects of restaurant and hotel business in Ananad and Nadiad District at Gujarat state", concluded that hotel and restaurant profit remains constant even after the implementation of GST. There is a neutral impact on compliance cost, and negative impact on budget and financial position and requirement of working capital for hotel business he felt.²

Nitin Kumar (2020), made a study on the "Customers Perception towards Goods and service Tax (GST) in Jind region of Haryana". He found that good understanding among customers is important as it can generate a positive perception towards the taxation policy. So the researcher suggested that the Government has to put in more efforts to ensure that consumers have a clear understanding and can develop a positive perception towards GST, leading to its acceptance.³

3. Objectives

The main objectives set for the present study on the impact on goods and services tax on hotel industry in India are follows:

1. To analyze the impact of GST on the pricing of Hotel room tariffs.
2. To examine the impact of GST on restaurant food bills.
3. To examine the impact of GST on Hotel and restaurant owner's purchase bills and
4. To analyze the pre and post GST Mechanism of restaurants and Food service businesses in India.

4. Data Source

The data is based on Secondary data collected from various reference books, National & International Journals, government reports and websites which focused on the various aspects of Goods and Services tax on hotel industry in India.

5. The Impact of GST on the Pricing of Hotel Room Tariffs in India

Regarding the impact of Goods and Service Tax on the Pricing of Hotel Room Tariffs in India, the prevailing GST Rates on Hotels Room Tariffs are presented in the following table 1.

Table 1: GST Rates on Hotels Room Tariffs

S. No	Tariff Per Night	GST Rates
1	Less Than Rs.1000	No Tax (0%)
2	Between Rs.1000- Rs.2499	12%
3	Between Rs. 2500-Rs.7499	18%
4	More Than Rs.7500	28%

Source: www.gstcouncil.gov.in

The above table 1 shows that the Under the GST regime, hotels and the restaurants are charged separately. Hotels will be charged with different rates depending on the value of tariff they are going to charge per night. Hotels with tariff less than Rs.1000 will not charge any GST. But hotels with more than Rs.1000 tariff and less than Rs.2500 per night are subject to charge GST at 12%. Hotels having tariffs between Rs.2500 and Rs. 7500 per night are subject to charge GST at 18%. Whereas five-star category hotels with tariffs more than Rs. 7500 per night are liable to charge GST at 28%.

6. The Impact of GST on Food Services & Restaurant Business in India

GST will subsume the service tax and VAT into one single rate, but catering bills are expected to include service charges along with GST. Detailed GST rates applicable to different types of Restaurants are shown in Table No 2.

Table 2: GST Rates on Eating Out

Restaurant Type	Service Tax	VAT	Serving/ Not Serving Alcohol	GST Rate
Non –Air Conditioned	6% (60% Abatement, pay only 40%)	14.50%	Not Serving Alcohol	5%
Air Conditioned			Not Serving Alcohol	5%
Partly AC & Partly Non-AC			Serving Alcohol	5%
			Not Servicing Alcohol	5%
			Serving Alcohol	5%
5 Star Restaurant			Not Servicing Alcohol	5%
			Serving Alcohol	5%
				All

Source: www.gstcouncil.gov.in

The GST council has introduced rates applicable for various types of restaurants. Eating at a Non-AC restaurant not serving alcohol will be charged at 5% GST. Apart from it all restaurants, whether it be partly Air conditioned and partly non-Air conditioned, serving alcohol or not, completely Air conditioned, serving alcohol or not, including eating at luxury and five-star hotels will be charged GST at 5%. Food Truck businesses will not be affected by the implementation of the GST. Therefore, it is expected that such cateres will grow drastically in the near future.

7. The Impact of GST on Restaurant owner’s Purchase Bills in India

Details of the impact of Goods and Service Tax on restaurant owner’s purchase bills in India are presented in table 3.

Table 3: Impact of GST on Restaurant Owner’s Purchase bill

S. No	Particulars	Billing under VAT Regime	Billing under GST Regime
1	Wheat	1200	1200
2	Spices	400	400
3	Oil	200	200
4	Total	1800	1800
5	Vat @ 5%	90	-
6	GST @ 5%	-	90

Source: www.gstcouncil.gov.in

From the above table 3 it is clear that under the VAT regime the Restaurant Owner’s were paying more tax to the authorities as compared to the GST regime. Thus, GST has helped enhancing their working capital.

8. Tax liability on Restaurants under GST regime

- Schedule II u/s 7 of CGST Act incorporates activities to be treated as supply of goods or supply of services.
- As per clause 6(b) of Schedule II, Restaurant services are specified as composite supply and have been defined as follows: - “Supply by way of or as part of any service or in any other manner whatsoever, of goods, be it food or any other article for human consumption or any drink (other than alcoholic liquor for human consumption), where such supply or service is for cash, deferred payment or other valuable consideration”.
- As per clause 6(b) of Schedule II, tax under GST regime will be leviable as supply of services, not as supply of goods at 18% on transaction value i.e., the consideration paid or payable.
- No tax will be payable on the goods supplied by the Restaurants to the customers as Restaurant services have been specified as composite service.
- The supplier of Restaurant services will be entitled to input tax rebate on the inputs, capital goods and input services used by them in the course or furtherance of business.
- As such Restaurant service supplier shall pay tax at 18% on supply of services in place of 5% which was being paid under VAT regime.

9. Taxability on mandap keeper services etc under GST in India

- Mandap keeper, Hotels and convention Services, etc., as mentioned above are proposed to be taxable at 18% under GST.
- There is abatement on these services under Services Tax Law which may not be available under GST as these services will not be taxable separately under any state law.
- There will not be overlapping of taxation as present state taxation laws have been subsumed in GST.
- There will be availability of Input Tax Credit of taxes paid on supply of Inputs and Input Services.

10. Pre-GST Mechanism of Restaurants and Food Service businesses

Before the implementation of GST, Value Added Tax (VAT) system was applied in all the sectors of the economy. Value Added Tax (VAT) is levied on things that are sold-out in an improved form, where value is added to an item before it is sold-out. One has to pay VAT on product and services at varied stages of their production, distribution and sale. In restaurants, VAT isn't indictable on pre-packaged things like drinkable, bottled alcohol and food. However, it is applicable on food and drinks prepared within the restaurant kitchens. VAT varies from state to state, and even inside the states. It differs based on the sort of product. It could be anywhere between 5 and 20.

- VAT is leviable at 5% on cooked foods and snacks provided by a restaurant.
- VAT is leviable at 20% on Cold drinks and at 14% on alternative non-food items.
- Entry Tax is additionally payable at 1% on staple and incidental products utilized in the manufacture of cooked food.
- Luxury Tax is additionally payable by out of doors caterers at 10% under LEAT Act with the sale price being deducted on that tax which is vulnerable to be duly submitted under MPVAT Act. In this context hospitals and academic institutions are exempted.
- Under MP VAT Act tax on sale of alcoholic liquor to customers is levied at 5%

11. Post-GST Mechanism of Restaurants and Food Service businesses

This new tax regime divides the product into 5 categories, those that are excluded from tax, 0% 5%, 12%, 18% and 28%. Dining at a restaurant was much simpler prior to GST enrolment. There one could get his food pay the bill and leave. Earlier one had to pay 3 further charges: the service charge, Service tax and value added tax (VAT). However, lack of data regarding GST has given a chance for restaurant owners to dupe any customers by making them pay extra. To lead on smarter front here's what customers ought to understand.

Firstly, the charge collected as service charge isn't a tax. The restaurants do not levy service charge by government order, they conduct it on their own. However, if customer don't wish to pay, they don't need to. It's utterly customer's decision whether or not they wish to pay the charge or not. If restaurants force a customer to pay service charge it is susceptible for being sued in a consumer court.

On the tax front, one has got to pay two taxes: service tax and value added tax. GST has subsumed both of these taxes and replaced them. For eating in Non-AC restaurant, a tax of 12% is to be paid. This 12% comprises 6% as Central GST and 6% State GST. Local delivery restaurants have to collect the same rates. However, if one in an AC restaurant, irrespective of the fact that alcohol is served or not, a total of 18% of the tax is to be paid.⁴

12. Conclusion

Under the GST regime, both customers as well as restaurant owners have reason to express joy. Customers may be pleased about the reduction in the amount of payments they will be paying now in order to please their taste buds. On the other hand, hotel and restaurant owners can celebrate because they can now claim input tax credits easily. But hotels with room tariff per night exceeding Rs. 7500 will surely feel the pain of GST as they may see fall in the number of tourists footing into their property, since they will have to pay the GST at 28% which they think is very high.

The restaurant industry has been burdened with high and multiple taxations. However, liquor should be included in GST. Exempting it defeats the very purpose of bringing in a uniform single tax structure. This allows the states to have their own taxes without a cap with separate accounting requirements and may result in double compliance for the restaurant / hotel industry. This is neither beneficial for 'Ease of doing business' nor for the customers, "Everybody likes consolidation of taxes as it leads to greater transparency and will help guests and buyers understand the overall costs. Overall, GST should be positive for the sector assuming that the multiplicity of taxes will go away in food and beverages.

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