



A STUDY ON IMPACT OF GOODS AND SERVICE TAX (GST) ON HOTEL INDUSTRY IN INDIA

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Abstract

Athithi devo bhavha” (Guest is God) has been one of 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 is expected to grow 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 the output of goods and related services which build well being of their nations and communities. India is world most attractive tourism spot. India have many states. India have different cultures of every states and have various variety in the food. Due to this domestic and international tourist are going to the India’s various states for enjoyment. However, Indian government cannot be do much effort to attract the tourist and grow the tourism. Due to that burden of taxes can remove, government of India established new taxation condition, that is good and service tax (GST). In 1 July 2017 government of India can pass the bill in parliament of India to establish the GST. In India every states have their own law for tax conditions. But because of GST, various taxes of the states government will be finished. That taxes is burden for the people, however, because of GST the inflation in the price of tourism will be studied. In that study we can observed truism will be increase or decrees after GST in reality and numbers. This paper is focus on the impact of GST on hotel industry in India.

Key Words: Goods and Service Tax, Impact, Hotels, Contribute, Tourist, Development.

Introduction

Goods and service tax is an indirect tax levied at national level and it abolishes all indirect tax. It is a comprehensive tax levy on sale, manufacturing and consumption of goods and services. Regime of GST was started by Vishwanath R atap Singh in 1986 during Rajiv Gandhi government but it failed to get approval in 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 comprises all state and central finance ministers.

One tax for entire nation”. Benefit under GST is 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 per cent, 5 per cent, 12 per cent, 18 per cent and 28 per cent. GST removed cascading effect (tax on tax) on the sale of goods and services which helps to decrease the cost of goods and services. Activities like retunes, refund registration response need to be done on the GST portal. This helps to speed up GST process. 3 types of GST are, CGST: collected by central government on intra state sale. SGST: collected by state government on intra state sale. IGST.

The hotel industry spends a lot of money on construction and renovation. They have to move with the times in order to remain competitive and attract 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, liquor should be included in GST. Exempting it defeats the very purpose of bringing in a uniform single tax structure. This allows 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 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

Review of Literature

The main reviews of literature are impact of goods and service tax in India on hotel industry as follows: **Faizanbhai (2019)**, in the paper "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 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.²

Nitin Kumar (2020) contributed 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 Government has to put in more effort to ensure that Consumers have a clear understanding and develop a positive perception towards GST, leading to its acceptance.³

Objectives

The main objectives focuses are presented in the impact on goods and services tax on hotel industry in India as follows:

- To analyze the impact of GST on the pricing of Hotel room tariffs.
- To examine the impact of GST on restaurant food bills.
- To examine the impact of GST on Hotel and restaurant owners purchase bills and
- To analyze the pre and post GST Mechanism of restaurants and Food service businesses in India

Data Source

The data is based on Secondary data collected from various referred books, National & international Journals, government reports, websites which focused on various aspects of Goods and Service tax on hotel industry India.

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

Impact of Goods and Service Tax on the Pricing of Hotel Room Tariffs in India. GST Rates on Hotels Room Tariffs is presented in the 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 that the Under the GST regime hotels and the restaurants will be 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 tariff more than Rs.1000 and less than Rs.2500 per night are subject to charge GST at the rate of 12 per cent. Hotels having tariffs between Rs.2500 to Rs. 7500 per night are subject to charge GST at the rate of 18 per cent. Whereas five star category hotels with tariffs more than Rs. 7500 per night are liable to charge GST at the rate of 28 per cent.

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

GST will subsume the service tax and VAT into one single rate, but eateries bills are expected to include service charges along with GST. Detailed GST rates applicable at different forms 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%
			Not Serving Alcohol	5%
Air Conditioned			Serving Alcohol	5%
			Not Servicing Alcohol	5%
Partly AC & Partly Non-AC			Serving Alcohol	5%
			Not Servicing Alcohol	5%
5 Star Restaurant	Serving Alcohol	5%		
	All	5%		

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 per cent 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 per cent. Food Truck businesses will not be affected by the implementation of the GST, so therefore it is expected that such eateries will grow drastically in the near future.

The Impact of GST on Restaurant owners Purchase Bills in India

Details of the impact of Goods and Service Tax on restaurant owners purchase bills in India is 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 well 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 is going to enhance their working capital.

Tax liability on Restaurants under GST regime

1. Schedule II u/s 7 of CGST Act incorporates activities to be treated as supply of goods or supply of services.
2. 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, being 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".
3. 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 the rate of 18 per cent on transaction value i.e. the consideration paid or payable.
4. No tax will be payable on the goods supplied by the Restaurants to the customers as Restaurant services have been specified as composite service.
5. 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.
6. As such Restaurant service supplier shall pay tax at the rate of 18 per cent on supply of services in place of 5 per cent which is being paid under VAT regime.

Taxability on mandap keeper services etc under GST in India

1. Mandap keeper, Hotels and convention Services, etc. as mention above are proposed to be taxable at the rate of 18 per cent under GST.
2. There is abatement on these services under Service Tax law which may not be available under GST as these services will not be taxable separately under any state law.



3. There will not be overlapping of taxation as present state taxation laws have been subsumed in GST.
4. There will be availability of Input Tax Credit of taxes paid on supply of Inputs and Input Services.

Pre-GST Mechanism of restaurants and Food service businesses

Before 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's sold-out to you. 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 prepackaged things like drinkable, bottled alcohol and food. However it's 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 to 20.

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

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, 5 per cent, 12 per cent, 18 per cent and 28 per cent. Dinning at a restaurant was much simpler prior to GST enrollment. There we've got our food, we have a tendency to pay the bill and we leave. Back then, we had to pay 3 further charges: the service charge, Service tax and value added tax (VAT). However, lack of data regarding GST, given a chance for restaurant owners to dupe any customers by making them pay additional. 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 forcing a customer to pay service charge it is susceptible for being sued under a consumer court.

On the tax front, you've 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, tax of pay 12 per cent is to be paid. This 12 per cent comprises of 6 per cent as Central GST and 6 per cent State GST. Local delivery restaurants are under the same rates. However, if you're in an AC restaurant, irrespective of the fact that alcohol is served or not, a total of 18 per cent of the tax is paid.⁴



Conclusion

It is concluded that mitigates the cascading effect of double taxation, reduction of exemptions, enabled better compliances etc. However, before GST regime India has the hub of taxes, in which various taxes are imposed on at various stages. It creates hurdles and confusion in growth of this sector. 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 pamper 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 GST at the rate of 28 per cent.

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 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 overall costs. Overall, GST should be positive for the sector assuming the multiplicity of taxes will go away in food and beverages.

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