

## **IMPACT OF GST ON INDIAN HOTEL AND RESTAURANT BUSINESS**

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### **ABSTRACT**

A 32 years old dream to have indirect tax reform finally comes true on July 1, 2017. The process of indirect tax reform started in the year 1986 with the introduction of Modified value added tax (MODVAT), followed by the proposal to have a single tax system in the form of Goods and Services Tax for the country as a whole in 1999 was finally introduced on July 1, 2017. Goods and services tax is a non-discriminatory indirect tax and is applicable throughout the country. The present research work attempts to highlight the impact of Goods and services tax on Indian Hospitality and Tourism Industry. The industry with a contribution of around US\$ 136200 million<sup>1</sup> to the GDP at the end of 2016 is the one which is expected to witness major changes post GST. The present research paper will cover impact of GST on the pricing of Hotel room tariff, on restaurant food bills, on restaurant owners purchase bills as well as its Pros and Cons on the Indian hospitality and tourism industry as a whole.

**Keywords:** Goods and Services Tax, Service Tax, VAT, Krishi Kalyan Cess (KKC), Swatch Bharat Cess (SBC) & Input Tax Credit (ITC).

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<sup>1</sup> <http://www.financialexpress.com/money/how-gst-will-impact-hospitality-industry/609363/>

## **INTRODUCTION**

Under the previous indirect tax regime, the Indian hospitality and tourism industry was liable to pay multiple indirect taxes such as VAT, Luxury tax and service tax. But with the commencement of GST regime, the Indian hospitality and tourism industry is expected to garner the benefits of standardized and uniform tax rates throughout the country. The industry can also get the benefit of better utilization of Input Tax Credit. It is expected that GST will reduce costs for customers, will harmonize the taxes as well as will help in reducing business cost.

Indian economy is going through the phase of rapid urbanization, increasing awareness of western lifestyle, empowerment of women. These resulted in higher disposable income which have than contributed to the enhancement of the growth of Hotel and restaurant industry. With the implementation of GST, it is expected that the industry is going to boom in the near future.

### **Objective of the Study**

This study has the following objectives:

- 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 restaurant owners purchase bills.
- To understand the Pros and Cons of GST on the Indian hospitality and tourism industry.

## **METHODOLOGY**

For the study, information's has been collected from the various published sources (online as well as offline). Moreover, in order to explain the impact of GST on customers/ tourists as well as hotel and restaurant owners, examples and illustrations are quoted wherever needed.

## **ANALYSES OF THE IMPACT OF GST ON THE PRICING OF HOTEL ROOM TARIFFS**

In the pre GST regime, a hotel where the tariff of a room was more than Rs. 1000, service tax @ 15% was chargeable. Though they used to get an abatement of 40% on the tariff value which resulted to reduce the service tax to 9% but along with service tax, they also used to charge

Value Added Tax at 14.5% and luxury tax of 10% of the stay charges. But for restaurants, the rate of abatement was 60%, which reduces the rate of service tax to 6% of the food and beverage bill. Apart from it VAT @ 14.5% was also chargeable. The bills for bundled services or social functions like marriages or seminars were taxed with an abatement of 30%. The pre GST regime incorporated cascading effect where the customer or the tourist used to pay taxes on taxes whereby increasing the end cost. On the other hand hoteliers and restaurant owners were not getting any benefit of input credits on the taxes paid by them, as central taxes like service tax was not allowed to be set off against state taxes like value added tax and vice-versa.

**Table No. 1- GST Rates on Hotels Room Tariffs**

<b>Tariff Per Night</b>	<b>GST Rates</b>
Less Than Rs.1000	No Tax (0%)
Between Rs.1000- Rs.2499	12%
Between Rs. 2500-Rs.7499	18%
More Than Rs.7500	28%

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 @ 12%. Hotels having tariffs between Rs.2500 to Rs. 7500 per night are subject to charge GST @ 18%. Whereas five star category hotels with tariffs more than Rs. 7500 per night are liable to charge GST @28%.

With GST, the Indian hospitality industry stands as a gainer not only because of uniform tax rates, but also because they will be getting benefit of input tax credit. GST will reduce the final cost to travellers which may result in attracting more overseas tourists than before. Increasing overseas tourist in future will result in increasing foreign revenue for the government. In the pre GST regime complimentary food like breakfast were taxed separately under VAT, but now under GST, it will be taxed as a bundled service. Detailed analysis of GST rates for Hospitality and hotel industry and its comparison with pre GST rates has been made in detail:

**Table No. 2- Breakup of Hotel Prices Pre and Post GST**

<b>Cases</b>		<b>Pre GST</b>	<b>Post GST</b>
Case-1	<b>Basic Room</b>		
	Room Tariff	2300	2300
	Luxury Charge on Stay Charges ( 10% as per Delhi & Maharashtra)	230	-
	Service Tax @ 9% (2300* 9%)	207	-
	GST @ 12%		276
	<b>Total</b>	<b>2737</b>	<b>2576</b>
Case-2	<b>Room with Complimentary Breakfast</b>		
	Room Tariff	1800	1800
	Complimentary Breakfast	500	500
	Luxury Charge on Stay Charges ( 10% as per Delhi & Maharashtra)	180	-
	Service Tax @ 9%	207	-
	VAT @ 14.5% on food (500*14.5%)	73	-
	GST @ 12%	-	276
	<b>Total</b>	<b>2760</b>	<b>2576</b>
Case-3	<b>Basic Room</b>		
	Room Tariff	3000	3000
	Luxury Charge on Stay Charges ( 10% as per Delhi & Maharashtra)	300	-
	Service Tax @ 9% (3000* 9%)	270	-
	GST @ 18%	-	540
	<b>Total</b>	<b>3570</b>	<b>3540</b>
Case-4	<b>Room with Complimentary Breakfast</b>		
	Room Tariff	2500	2500
	Complimentary Breakfast	500	500
	Luxury Charge on Stay Charges ( 10% as per Delhi & Maharashtra)	250	-

	Service Tax @ 9%	270	-
	VAT @ 14.5% on food (500*14.5%)	73	-
	GST @ 18%		540
	<b>Total</b>	<b>3593</b>	<b>3540</b>
Case-5	<b>Basic Room</b>		
	Room Tariff	10000	10000
	Luxury Charge on Stay Charges ( 10% as per Delhi & Maharashtra)	1000	
	Service Tax @ 9% (10000* 9%)	900	
	GST @ 28%		2800
	<b>Total</b>	<b>11900</b>	<b>12800</b>
Case-6	<b>Room with Complimentary Breakfast</b>		
	Room Tariff	8000	8000
	Complimentary Breakfast	2000	2000
	Luxury Charge on Stay Charges ( 10% as per Delhi & Maharashtra)	800	-
	Service Tax @ 9%	900	
	VAT @ 14.5% on food (2000*14.5%)	290	
	GST @ 28%		2800
	<b>Total</b>	<b>11990</b>	<b>12800</b>

GST is a mixture of easy rules and regulation on one hand and increased cost and compliance on the other hand. The table illustrated above makes it extremely easy to understand the impact of GST on the Hotel Business. Except for Case-5 and Case-6 wherein the cost of stay is going to go up after GST implementation, the cost of stay for other four cases are comparatively cheaper under GST regime as compared to pre GST regime. In near future many hotelier may fix the price of their tariff at Rs.7499 so that the billed amount to the customer will be around Rs.8850, since it will be falling under the category of 18% tax slab.

## ANALYSES OF THE IMPACT OF GST ON FOOD SERVICES & RESTAURANT BUSINESS

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.3 below:

**Table No. 3- GST Rates on Eating Out**

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

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, so therefore it is expected that such eateries will grow drastically in the near future.

Customers eating at various restaurants hardly pay attention to the components of taxes included in their food bills. Pre GST food bills used to incorporate service charges, service tax and value added tax. Below an attempt is made to show comparison of Pre and Post GST food bill:

**Table No. 4- Comparison of Pre and Post GST Food Bill**

Before GST			After GST		
XYZ Food Zone			XYZ Food Zone		
Table No....	Bill No.....		Table No....	Bill No.....	
Date .....			Date .....		
Items	Qty.	Amt.	Items	Qty.	Amt.
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Total		1000	Total		1000
Service Charge @10%		100	Service Charge @10%		100
Service Tax @ 5.6%		61.6	GST @ 18%		
Krishi Kalyan Cess @ 0.2% (5% * 40%)		2.2	• CGST-2.5%		27.5
Swachh Bharat Cess@ 0.2% (5% * 40%)		2.2	• SGST-2.5%		27.5
Vat @ 14.5%		159.5	Total Amt. Payable		1155.00
Total Amt. Payable		1325.50	Total Amt. Payable		1155.00

Under GST, with effective rate of tax @ 5% for restaurant, a customer can easily save Rs. 170.5 on a transaction of Rs. 1100. Under the pre GST regime, the total tax burden on customers was around 20.5% (which includes Service Tax @ 5.6%, Krishi Kalyan Cess @ 0.2% (5% \* 40%), Swachh Bharat Cess@ 0.2% (5% \* 40%) & Vat @ 14.5%). Thus, under the GST regime, a customer can save 15.5% (20.5-18) of transactional value per transaction.

### THE IMPACT OF GST ON RESTAURANT OWNERS PURCHASE BILLS

**Table No. 5- Impact of GST on Restaurant Owner's Purchase bill**

Particulars	Billing under VAT Regime	Billing under GST Regime
Wheat	1200	1200
Spices	400	400
Oil	200	200
Total	1800	1800
Vat @ 5%	90	
GST @ 5%		90

**Table No. 6- Comparison of Pre and Post GST Restaurant Owner's Bill**

<b>Particulars</b>	<b>Billing under VAT regime</b>	<b>Billing under GST regime</b>
Total Bill	4000	4000
Output Tax		
VAT @14.5%	580	
Service tax @6%	240	
GST @18%		720
<b>Total output tax liability</b>	<b>820</b>	<b>720</b>
Input credit		
VAT ITC (no ITC on ST)	90	
GST ITC		90
Final Output tax liability:		
VAT	490	
Service Tax	240	
GST		630
<b>Final Output tax liability Payable</b>	<b>730</b>	<b>630</b>

From the above table, 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.

### **The Pros of GST on Indian hospitality and tourism industry**

#### **1. Easy to Administer-**

With the abolition of the old Indirect tax regime which used to incorporate several taxes, there will be a massive reduction in procedural steps associated with them as well as GST is expected to rationalize the entire taxation process.



## **2. Transparency/ Clarity for Customers-**

Under the old Indirect tax regime, it was difficult for the customers to understand the composition of VAT, Luxury tax and service tax incorporated in their bills. But under GST customers can see only a single charge on their bills, helping them to know the amount of tax that they are paying.

## **3. Enhancement in Quality of Service**

Billing under GST will be extremely easy and therefore is going to enhance the quality of services by reducing the processing time.

## **4. Benefit of availing Input Tax Credit (ITC)-**

Under the GST Regime, the Indian hospitality and tourism industry can easily claim and avail Input Tax Credit (ITC) and will be getting full Input Tax Credit (ITC) on their Inputs. Under the old Indirect Tax Regime, the taxes paid on inputs such as edibles for food and cleaning supplies, etc., were not allowed to be adjusted against the output, and wherever it was allowed it was full of complications.

### **The Cons of GST on Indian hospitality and tourism industry**

#### **1. Increase in Technological Burden-**

Under the new GST regime, the businesses are required to adopt technology, which in turn is going to increase the cost at least in the initial stage, followed by awareness on how to manage the books of accounts under GST and filing of returns under it.

#### **2. Increase in Cost-**

In order to recover the additional cost incurred by businesses in adopting technologies and new systems, they may hike tariffs and may charge extra from the customers.

#### **3. Disparity with Other Asian Countries-**

Asian countries such as Japan and Singapore are having very low rates of taxes for Hospitality sector, for example Japan is having 8% and Singapore is having 7% as compared to such rates of taxes, the rates proposed under GST are comparatively high, which may result in losing a substantial number of tourists.

## 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 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 @28%.

## Web References

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