

Impact of GST on Hotel Industries

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Abstract

GST is here, and businesses are still trying to understand the changes required in their current systems to accommodate the new compliance model. On this note, we bring you our impact analysis on something which is very near and dear to us; or, rather to our stomachs –the restaurant and food industry. Here we will try to explain how the restaurant bill will look under GST and what are its implications for the end consumers the owners and the overall industry. Indian tourism and hospitality industry has justly been touted as one of the key drivers of the economy, given the rise of an ambitiously expanding middle class and increased disposable income of this population bracket. Currently, it accounts for 7.5 percent of the country's GDP, with a promised growth of about 16.1 percent CAGR, sweeping in approximately Rs. 2796.9 thousand crore by 2022, as reported by KPMG.

Keywords: Hotel, GST.

I. Introduction

“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 % 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 wellbeing of their nations and communities. Goods and Services Tax (GST) as a tax reform migrating to Goods and Services Tax (GST) is a time to revisit the taxation and remove the anomalies. Hotel industry (includes tourism) contributes to 6.23 percent to the National GDP and 8.78 percent of the total employment in the country. Goods and Service Tax (GST) is a destination based consumption tax which is a levy of tax on all goods and services with the objective of expanding the tax base through wide coverage of economic activities , mitigating the cascading effect , reduction of exemptions , enable better compliances etc. thereby resulting into formation of common national market for goods and services . Present Scenario Hotel Sector in India is presently covered as one of the priorities of the Government and as such is allowed tax relief in the form of abatements vide N.No. 26/2012-ST dated 20.06.2012. Presently, the hotel industry is plagued by multiple of taxes i.e., Service tax, luxury tax and VAT which ultimately results into cascading effect. The three taxes that are levied are the VAT and luxury tax by the States and service tax by the Centre. The VAT rate varies from state to state (generally levied between 12% to 14.5%), luxury tax depends on the room tariff and the state (generally varies from Nil to 12%). Similarly, service tax varies on the type of service. For hotels with room tariff in excess of Rs 1,000 and above, service tax is applicable at 60% of room tariff in addition to VAT (ranging between 12 to 14.5%) and luxury tax wherever applicable. In case of restaurants on the F&B bills, service tax is applicable on 40% of the bill or effective rate of 5.8% apart from VAT @ 12 to 14.5%. In case of social functions (marriage, seminars etc.) the applicable service tax rate after 30% abatement is 10.15%. When the VAT, service tax and luxury tax are combined, the total impact goes up and lies between 20 to 27 percent. As input credit from central taxes cannot be set off against VAT liability and vice-versa, this leads to cascading effect. The present rate of service tax is 15% including cesses viz Swish Bharat Cess (SBC) and Krishi Kalyan Cess (KKC).

II. Literature Review

According to the Model law on GST which neither contains the exemptions nor the rates of taxation, it appears that all services in relation to hotels and restaurants would be subject to levy of GST as the same is to be treated as 'supply'. Section 3 read with Schedule II stipulates that 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 shall be treated as supply. However, the rates are expected to be in the range of 18-20%. In the proposed GST regime, GST shall be payable by taxable persons on the supply of goods and services. Taxable person is defined in Section 9 of Model GST law which stipulates that a person who carries on any business at any place in India / State and who is registered or required to be registered under Schedule III of the Act. Further, a person is required to be registered if its aggregate turnover in a financial year exceeds Rs. 20 lakhs all over India other than North Eastern states. For North - eastern states including Sikkim and hill stations, the threshold limit would be Rs. 10 lakhs. There are no specific provisions for inclusions or exclusions of hotels and restaurants services or any other activity related to hotels / restaurants elsewhere in the proposed law. Likely Impact in GST regime: Based on the provisions of Model Law, it can be said that hotel sector shall be impacted both positively and negatively under the GST regime.

- (i) The multiple taxes would be replaced by one single tax, the rate of which is likely to be between 16%-18%. The hotel industry would benefit in the form of lower tax rate which should help in attracting more tourists in India. (
- (ii) There are likely to be concerns in valuation of restaurant services in view of the industry practice of discounts / offers / policies in the form of incentives. The proposed valuation rules are different from the existing ones and as such this sector

- need to frame an appropriate policy for such discounts in advance making it a part of documentation.
- (iii) Service providers having centralized registration will have to get registered in each state whether providing hotel services on own account or through agent (franchise).
 - (iv) Service providers will have an option to take different registration or separate business verticals which needs to be examined on case to case basis.
 - (v) The procedure for all the invoices / receipts towards inward and outward supplies will become cumbersome as each one of them will have to be uploaded in the system.
 - (vi) The frequency and number of returns to be filed will go up.
 - (vii) There is a provision for GST audit if the turnover is more than the prescribed limit.
 - (viii) The e-commerce companies may have to revamp the current models, as the VAT rate arbitrage available in the current law may not be available in GST. Tax Collection at Source (TCS) provisions have been introduced on ecommerce operators in the Model GST Law. However, there are no provisions relating to collection of tax at source under the current tax regime.
 - (ix) Alcohol and electricity are out of the purview of GST to net. The taxation on alcohol would be different than the single GST rate. The hotel industry consumes a lot of electricity as a prime consumable and the levy of electricity duty would also not be covered in GST. Thus, the hotel industry would not be able to avail the input credit on the two items which will have a negative impact on this sector.
 - (x) 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 become a part and parcel of GST.

III. Methodology

Before you get all charged up to make that over-planned and long-awaited Andaman holiday come true, replete with all the airs of a lavish stay at a five-star hotel in the thick of those islands, don't forget to take a look at GST's breakdown blueprint – this will certainly have you squirming – and burning a deeper hole in your pocket than you imagined. And going by how GST has been hailed as godsend from no less than the political gods of our country for *months* now, clueless others like you will be unpleasantly surprised as vacations get costlier; when in fact, the GST discourse had all of us believing it was only going to get cheaper – what with all the travel accommodation rates getting slashed down.

That is effectively not the case – as the **12 through 28%** of Goods and Services Tax (GST) rate levied on the hospitality/hotel industry signifies. Especially for hotel owners, as your fate could lie anywhere, depending on what your turnover and services are.

Have a look at the table below to gain a cursory understanding of GST rates applicable to the hotel industry:

Room Tariff Per Night (Rs.)	GST Applicable
<INR 1000	0% No Tax
INR>1000 but <2500	12%
INR>2500 but < 7500	18%
>INR 7500	28%

Depending on this breakdown, budget hotels are the ones to benefit the most from the implementation of GST, while the mid and high-category hotels falling under the 18-28% GST slab are expected to be bearing the brunt of the reformed tax policy. Succinctly put, in the words of General Manager, Palm Beach and general secretary of Hotel and Restaurant Association of AP, Mr. Sandeep Reddy, [prices could easily double](#) for a simple weekend holiday package earlier costing INR 10,000. This calculation obviously rests on a near-accurate observation that most travellers usually opt for mid-range and/or luxury hotels, which will now be significantly impacted at least for some time – with lesser people reluctant to shell out more for the exact

same services offered. Does this mean budget hotels will hold the top spot with more travellers flocking to these low-budget havens for cheaper accommodation?

Yes, but this works only for budget-conscious travellers and does not quite include the larger pool of customers, and since budget hotels do not offer the same kind of services as do mid and high-category hotels, there is unlikely to be a sudden spurt in demand for the same among this section of consumers that is willing to pay slightly more for premium services. However, the current GST slab might deter these very consumers from paying excessively for mid to luxury-range services, given there would be no material change in the services offered. The only long-term solution then, for hotels affected may be to reduce their average room rates (ARR) to maintain a steady influx of business. This is something that the end consumer will benefit from immensely in the long run. The hotel owners? Not so much, as they find themselves scrambling to maintain competitive rates while reeling under the strain of staying afloat in the midst of inflated operational costs, those being commodities and labour.

Here's how restaurant services (as per their yearly turnover) will now be taxed under GST:

Establishment Type and Services	GST Rate Applicable
At establishments with turnover of <INR 75 lakh	5% (Composition Scheme)
Non-AC restaurants not serving alcohol	12%
Non-AC restaurants serving alcohol	18%
Restaurants with AC or Central heating (whether serving or not serving alcohol)	18%
Partly AC and partly non-AC restaurants (includes those serving and those not serving alcohol)	18%
AC Restaurants inside 5-Star Hotels	18%

Supply of food and drinks, banquet and outdoor catering services will attract a rate of 18% GST, with **banqueting services profiting the most** from this reformed policy; considering they earlier used to attract a tax of 23-25 percent, in addition to luxury taxes levied by respective state governments. So if you are a banquet business looking to fill up your yearly calendar, time, and GST, are definitely on your side, as customers now make a beeline for reasonable and affordable banqueting services.

Conclusion

Companies specializing in food and beverages operations could be the biggest beneficiaries of GST within the hospitality sector. Food and beverages bills have multiple components and can inflate the bills by 30-35%. A single-slab tax will benefit consumers and should lead to savings of 10- 15% on the overall bill. 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. "Luxury and other service taxes in hospitality amount to more than 22%, compared with the proposed 18% under the GST regime. Overall, GST should be positive for the sector assuming the multiplicity of taxes will go away in food and beverages. The lacunas in the present regime of indirect taxation in India demands for the major breakthrough in this field for facilitating the ease of doing business effectively and efficiently. Hopefully, GST is going to be pinnacle which aims at evolving an efficient and harmonized consumption or destination based tax system and will remove the problems faced by the sector leading to cost optimization and free flow of transactions.

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