

AN EMPIRICAL STUDY ON IMPACT OF GST ON HOTEL INDUSTRY AT CHENNAI CITY

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Abstract

This study aims to find out the influence of GST on Hotel Industry at Chennai city. The study was chosen five independent variables to identify the opinion of respondents on the implementation of GST namely GST is effective, easy to understand, taxation condition, profit margin and customer increase after GST. The study was empirical in nature. The study collects data from 50 hotels (20 from 3 star, 20 from 4 star and 10 from 5 star hotels) by using structured scheduled interview method. Secondary data was collected from books, magazines and from websites. The sampling technique adopted for the study was disproportionate stratified random sampling method. The analysis such as descriptive statistics and multiple regression analysis are applied. The study found that there is a significant certain impact of GST implementation on hotel industry at Chennai city. The study concluded that GST in hotel industry will attract more customers to consume hotel service and also enhances revenues to the government.

Key Words: GST, Hotel Industry, Chennai City.

I. Introduction

Rapid urbanization, growing knowledge of Western lifestyles, more women joining the labor force and larger disposable revenue are some of the components that have contributed to restaurant industry growth. As an outcome, we are waiting in queues over the weekend at most restaurants. Customers, after consuming food and other services from restaurants, they pay for it and most of us are not even aware of the components included in the bill. Many find it hard to pay attention to their food bill. Previously, we find Service Tax, Service Charge and VAT are being added over and above the food value. But after the introduction of GST, the rates are vastly different from the previous one. With effect from 1st October 2019, varied GST rate for varied type of eating outs are provided such as railway restaurant (5%), standalone restaurant (5%) standalone outdoor catering services (5%), restaurant within hotels which vary according to the room tariff (5% and 18%). It reduces the amount paid to hotels by the customers by way of tax. Under the new regime, GST brings joy for consumers and restaurant owners alike.

II. Problem Definition

GST take the service industry by storm and most of us are unaware of its implications, especially on the hotel industry Hotel industry is one of the most cripplingly taxed sectors with numerous cascading taxes (VAT, service tax, luxury tax, etc.) growing into a huge tax rate of 20-30 per cent, essentially eating away at operating costs and rising income. Even though the government has introduced the bill and set out a date for its roll-out, still it does not have enough clarity on its implementation. It is necessary for the government to provide clear guidelines as to how the accounts need to be maintained and returns to be filed. In addition, the hotel industry may have fear regarding increase in payment of taxes in future and may result in competition from Asian market. Hence, the study has been undertaken to identify the influence of GST on Hotel Industry at Chennai city. It identifies the pros and cons of GST implementation with respect to hotel industry.

III. Literature Review

What is GST?

GST is an indirect tax that has replaced many of India's Indirect Taxes. On 29 March 2017 Parliament passed the Goods and Service Tax Act. The Act came into force on July 1st, 2017; Goods & Services Tax Law in India is an extensive, multi-stage, destination-based tax levied on any added value. It is an indirect tax levied on the supply of goods and services. This law has replaced many indirect tax laws that already survived in India. There are 3 taxes applicable under this system: CGST, SGST & IGST (www.clear-tax.com).

- ✧ **CGST:** Collected by the Central Government on an intra-state sale
- ✧ **SGST:** Collected by the State Government on an intra-state sale
- ✧ **IGST:** Collected by the Central Government for inter-state sale
- ✧

Table 1: In most cases, the tax formation under the new government will be as follows:-

Transaction	New Regime	Old Regime	Meaning
Sale within the State	CGST + SGST	VAT + Central Excise/Service tax	Income will be shared equally between the Centre and the State
Sale to another State	IGST	Central Sales Tax + Excise/Service Tax	There will only be one type of tax (central) in case of inter-state sales. The Centre will then share the IGST income based on the aim of goods.

Current scenario of Hotel Industry

Hotel industry is continuously growing due to the growth in tourism and travel with rising domestic and foreign tourists. It is characterized by highly sophisticated travelers with an innate affection to technology and massive expectations of hotel service. It provides various services namely serving of food and liquor, room accommodation services, rent a cab, catering, laundry services, renting space for events, conferences etc., business support service, beauty parlour, club and gymnasium services, telephone etc. The services contribute by hotel sector are classified under GST into different tax slabs on the basis of facilities offered by hotels. The Indian hotel market worth estimated around US\$ 17 billion. Hotel industry subsidised extremely to tourism and around 7.5% of national GDP.

Tax Rate under GST for Hotels and Restaurant

GST Council in the 37th meeting held on 20th September, 2019 at Goa inter-alia, decided to lower GST rates on hotel tariff, outdoor catering and other miscellaneous items. To give effect to its decision they have issued Notification No. 20/2019-Central Tax (Rate) dated 30th September, 2019 (Govind Bedia, 2019).

Table2: tax rate under gst for hotels and restaurant

Nature of Service	Particulars	Taxable Amount	Tax Rate	Conditions
Hotel Accommodation	Value of Room Rental	Upto Rs.1000	0%	No Condition
		Between Rs.1001 and Rs.7500	12%	
		Rs.7501 and above	18%	
Restaurant Service	Restaurant is part of particular premises*	Any Amount	18%	No Condition
	Restaurant is not part of particular premises*	Any Amount	5%	No Input Tax Credit
Outdoor Catering	Supply by or at particular premises*	Any Amount	18%	No Condition
	Supply by and at other than particular premises*	Any Amount	5%	No Input Tax Credit

*Specified premises means the premises providing the hotel compromise services having declared tax (i.e. published tax without any discount) of any system of compromise above Rs. 7,500.

Rate of GST on outdoor providing services other than in premises having daily tax of system of compromise of Rs 7501 diminished from current 18% with ITC to 5% without ITC. The rate shall be compulsory for all kinds of contribute. Catering in premises with daily tax of system of compromise is Rs 7501 and above shall remain at 18% with ITC.

Influence of GST on Hotel Industry

Abraham, A., & Dr. Mathew, T. (2019) found that Goods and Service tax system will remove the defects the indirect tax system and to have a one market in the nation. After the revised rates was implemented Nov 15, 2017, majority of the hoteliers have expressed faith in the system. Even though the majority of hotels

have incurred additional costs in transitioning towards the new system, it is expected that in the long run GST will prove beneficial and make the fantasy of "One Nation One Tax" materialize.

Akshay R. Rakhunde, Dr. Priti Rai. (2019) examined the influence of GST on hotel industry, Nagpur. The study was chosen 3 star, 4 star, 5 star hotel in Nagpur. The study found that GST helps in improving the financial management and minimizes the problem for hotel community leading to cost increase and free flow of negotiation. The study concluded that maximum hoteliers in Nagpur are supporting GST.

Panwar, D & Patra, S. (2019) identifies the influence of goods and services tariff on the restaurants and food service trade in India. The study is exploratory in nature which focuses on analysis of the secondary data was gathered from the newspapers, magazines and from various websites which have published and focused on various determinants of Goods and Service tariff and how it influence the restaurant bills and the marketing factors of these companies/businesses. The study revealed that with the emerging changes in tax layout, the GST will impact primarily the promotional strategy of restaurants and food service trades and will give consumers clear picture of taxes they pay in restaurants. Therefore restaurants and food service businesses must draw outline of future in view of evaluation of GST and its impact on their businesses and functions mandatorily.

Aswathy Krishna & Divya. M.S, Aashish C.I (2018) assessed the influence of GST on hotel industry. The study found that after implementation of GST, the budget hotels are the most benefitted one. It also found that the hotels falling under 18-28% GST slab bears the adverse effects of GST. The study concluded that GST removes the problems faced by the hotel sector leading to cost optimization and free flow of transactions.

IV. Objectives of the Study

1. To examine the pros and cons of GST with respect to Hotel Industry.
2. To analyze the positive or negative influence of GST on Hotel Industry at Chennai city.

V. Pros and Cons of GST on Hotel Industry

Pros

- ✧ GST implementation reduces administrative steps and creates more opportunities to streamline the taxation of the economy.
- ✧ Reducing food bill taxes attracts more customers and creates revenue to the government.
- ✧ Small scale restaurant owners will benefit by minimum block of 0-12% tax.
- ✧ The new GST system will promote government revenue generation, reduce corruption and slash restaurant business prices.
- ✧ The removal of a lot of entries from the accounts book under name of various taxes leads to faster processing of a transaction.

Cons

- ✧ Though the bill has been introduced by the government there is a great deal of ambiguity on its implementation. The government should provide clear guidelines on how accounts have to be compelled for maintenance and filling of returns.
- ✧ The tax bracket for luxury hotels is simply too wide.
- ✧ Small hotels need skilled assistants to work on GST. They have to bear extra charges for hiring specialist or training the old one.

VI. Research Methodology

This study aims to investigate the impacts of GST on Hotel Industry at Chennai city. The study is empirical in nature. The study collects data from 50 hotels (20 from 3 star, 20 from 4 star and 10 from 5 star hotels) by using structured scheduled interview method. Secondary data is gathered from books, magazines and from websites which have published the information regarding GST and its impact on hotel sector. The sampling technique adopted for the study is disproportionate stratified random sampling method. The analysis such as descriptive statistics and multiple regression analysis are applied.

VII. Study Hypothesis

Based on the objectives of the study, the following hypothesis is applied to examine the positive or negative influence of GST on hotel industry

H₁₁: There is asinificant impact of respondents' opinion and satisfaction towards GST implementation at Chennai city.

VIII. Data Analysis and Interpretation

a. Descriptive Statistics

In order to analyse the level of opinion of hotel owners towards GST implementation, descriptive statistics is applied.

Table 8.1 data analysis and interpretation

Sl. No.	Scale	Mean		
		3 Star	4 Star	5 Star
1.	GST is effective	3.69	3.56	3.59
2.	Easy to understand	3.47	3.64	3.71
3.	Taxation condition	3.54	3.43	3.50
4.	Profit margin	3.58	3.31	3.40
5.	Customer increases after GST	3.47	3.41	3.75

[Source: Primary data]

From the above table, the mean value of 3 star, 4 star and 5 star hotels are below 4.00; which means the hotel owners have good opinion on the implementation of GST regime.

b. Regression

H₀₁: There is no meaningful impact of respondents' opinion and satisfaction towards GST implementation at Chennai city.

H₁₁: There is a meaningful impact of respondents' opinion and satisfaction towards GST implementation at Chennai city.

Table 8.2.a predictor variables of multiple regression analysis

Multiple R value	R Square value	Adjusted R ² value	F value	Standard Error	P value
0.896	0.803	0.795	97.175	1.413	0.001**

[Source: Primary data] Note: ** Denotes correlation is significant at one percent level

Since the p value is less than 0.01, the null hypothesis is rejected at one percent level of significance. Hence the linear combination of opinion of respondents towards GST implementation is significantly related to their satisfaction on GST implementation (F = 97.175 and P = 0.001**).

The above table revealed that the respondents' satisfaction on GST implementation can be predicted at R² = 0.803; which denotes that 80.3% of the observed variability in respondents' satisfaction on GST implementation can be significantly explained by the opinion of respondents towards GST implementation. The remaining 19.7% is not explained which means that the rest 19.7% of the variation of respondents' satisfaction on GST implementation is related to other variables which are not depicted in this model.

Table 8.2.b coefficients between respondents' opinion and satisfaction on gst implementation

Variables	USC	SE	SC	t value	P value
(Constant)	1.422	0.495		2.871	0.001**
GST is effective	0.453	0.068	0.444	6.648	0.001**
Easy to understand	0.304	0.076	0.319	3.975	0.005**
Taxation condition	0.103	0.075	0.088	1.366	0.003**
Profit margin	0.340	0.070	0.286	4.869	0.009**
Customer increases after GST	0.152	0.064	0.120	2.381	0.004**

[Source: Primary data] Note: ** Denotes significant at one percent level.

Dependent Variable (Y) = Respondents' Satisfaction on GST Implementation

Independent/Predictor Variable = GST is effective (X₁) + Easy to understand (X₂) + Taxation condition (X₃) + Profit margin (X₄) + Customer increases after GST (X₅).

The Ordinary Least Squares (OLS) equation for predicting respondents' satisfaction on GST implementation is:

$$\text{Respondents' Satisfaction on GST Implementation (Y)} = 0.453X_1 + 0.304X_2 + 0.103X_3 + 0.340X_4 + 0.152X_5 + e$$

The coefficient of factors regarding opinion of the respondents towards GST implementation such as GST is effective (0.453), easy to understand (0.304), taxation condition (0.103), profit margin (0.340) and customer increase after GST (0.152) represents the direct relationship between respondents' satisfaction on GST implementation. The estimated positive sign indicates that for each additional unit of positive opinion

of the respondents towards GST implementation, there is a unit increase in their satisfaction towards GST implementation and it is significant at 1% level.

IX. Findings

Based on the analysis, it is clearly found that the mean value of 3 star, 4 star and 5 star hotels are below 4.00; which means the hotel owners have good opinion on the implementation of GST regime. Since, GST is considered as a long term benefit for India, in future, the favoritism of GST towards hotels may subject to change positively. It is revealed from the multiple regression analysis that there is a positive influence of GST implementation on hotel industry.

X. Conclusion

With the invention of changes in tax structure, the GST will impact positively hotel industry. It also supports the hotels to apply favorable promotional strategies in their prices charged for various services and facilities. The customers are provided with clear picture of taxes they pay for the service consumed in hotels. The study found that there is a significant positive impact of GST on hotel industry. Hence, it is concluded that the mantra of GST “One Nation One Tax Policy” creates a standardized price for the services offered by the hotels, provides lower tax rate and precise and easily understandable bill for the customers. These benefits increase the consumer consumption of hotels which in turn create more employment opportunities in hotel industry and also lead to enhanced revenues to the government.

XI. Limitations of the Study

1. The study is limited to impact of GST on hotel industry at Chennai city.
2. The sample size of the study is limited to 50 hotels at Chennai city.

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