

IMPACT OF GST ON HOSPITALITY INDUSTRY

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ABSTRACT: *The biggest and substantial indirect tax reform since 1947, The Good and services tax (GST). The main idea of GST is to replace existing taxes like value-added tax, excise duty, service tax and sales tax. GST seems to be a game changer for the Indian economy. India as world's one of the biggest democratic country follow the federal tax system for levy and collection of various taxes. Different types of indirect taxes were levied and collected at different point in the hospitality industry which bought a huge impact on this industry.*

GST tax system is supposed to play a vital role in growth of India. GST cover 17 taxes (Like Vat, Sale tax, CST, etc.) GST is one of the most crucial tax reforms in India which has been long pending. GST is expected to address the cascading effect of the existing tax structure and result in uniting the country economically. This paper highlights the effect of GST on hospitality sector in India. In this research we find out that initially it bought a lot of unrest in this industry but has now stabilized by bringing in amendments.

INDEX TERMS: GST, Tax, hospitality industry, India

I. INTRODUCTION

To accommodate the new compliance model, businesses are still trying to understand the changes required in their current systems and therefore we have GST. On this note, we bring you our impact analysis on something which is very near and dear to us rather to our stomachs –the restaurant and food industry.

A versatile field encompassing accommodation and entertainment services, accounting, food and beverage, event management and above all, guest satisfaction is Hospitality industry With that, there comes an imperative need for this industry to walk hand-in-hand with latest updates of the market, and seek for all-inclusive technology solutions which can help them in governing their hotels and restaurants effectively. When the utility is wider, the exposure is greater towards taxation and other compulsions from the government authorities. The Indian hospitality industry gives way to heaps of levied taxes and scores of highly paid services. So, the hospitality industry should get ready with GST compliant hotel software, as India warms up for GST. The impact of GST will go far and wide, enabling everyone, right from a manufacturer and a supplier to distributor and consumer to give their part in improving the country's economy with the travel segment, the hotel industry is one of the fastest growing domains in India, it was valued at \$136.2 billion by the end of 2016. By bringing down costs for customers, consolidating the multiple taxes into a single tax value and decreasing transaction costs for concerned business owners, the implementation of Goods and Services Tax (GST) will help the hotel and travel industry largely. However, certain challenges accompany these outcomes as well.

II.OBJECTIVE:

To analysis the effect of GST on hospitality industry in India.

III.Research Methodology:

Being an explanatory research it is created on secondary data of various source. The accessible secondary data is intensively used for research study.

IV.GST STRUCTURE

CGST: GST to be levied by the Centre.

SGST: The GST to be levied by the States is State GST (SGST).

IGST: Integrated GST (IGST) will be levied by the Centre and the States concurrently.

UTGST: The GST to be levied by the unitary territory

Different Taxes covered under GST: -

State taxes which will be subsumed in SGST: -

- VAT/Sales Tax
- Luxury Tax
- Entertainment Tax (unless it is levied by local bodies),
- Taxes on lottery, betting and gambling.

Central Taxes which will be subsumed in CGST: -

- Central Excise Duty
- Additional Excise Duty
- Service Tax,
- The Excise Duty levied under the medical and Toilet Preparation Act,
- Additional Customs Duty
- Commonly known as countervailing Duty (CVD) or Special Additional duty of customs (SAD)
- Education Cess
- Surcharges

Taxes that will not be subsumed:-

- Stamp Duty
- Electricity Duty
- Other Entry taxes and Octroi Entertainment Tax (levied by local bodies)
- Basic customs duty and safeguard duties on import of goods into India
- Professional Tax

V.GST STRUCTURE IN HOSPITALITY INDUSTRY

The Council, during its implementation of GST, decided that

- Rooms with tariff less than INR 1,000 will have no tax
- Rooms with tariff between INR 1,000 and INR 2,500 will have 12%
- Rooms with tariff between INR 2,500 and INR 7,500 will have 18%
- Rooms with tariff more than INR 7,500 will have 28%

The Council, during its implementation of GST, decided that the 28% GST would be imposed on hotel rooms with a tariff of Rs 7,500 and above against the previous proposal of Rs 5,000 and above. 18% GST would be levied on rooms with tariffs between Rs 2,500 and Rs 7,500. The GST on hotel restaurants in five-star and other luxury hotels has been reduced to 18% from 28%, bringing it at par with other air-conditioned restaurants. It has been suggested that this will have positive impact on revenue from food and beverages segment of the hotel falling under the category of INR 7,500 and above. This will also benefit customers in terms of pricing.

The companies that'll be benefiting out of this suggestion would be Taj Hotels, Royal Orchid, Hotel Leela, Indian Hotels and many other hotels which fall under this category.

VI.CONDITIONS PRE-GST AND POST-GST

Comparing to other industries in India, there are multiple taxes applicable to hospitality industry. These taxes were mainly in the form of value added tax (VAT), luxury tax and service tax. In hotel, if a room's tariff exceeded INR 1000, the service tax liability was 15%. With an abatement of 40% allowed on the tariff value, the actual rate of service tax was decreases down to 9%. The VAT that ranged 12% and 14.5%, as well as the luxury tax, was applied over and above this.

BASIC ROOM	BEFORE GST	AFTER GST
Room tariff	2,700	2,700
Luxury charge on Stay charges(10% as Maharashtra)	270	
Service tax@9%	243	
GST at 18%		486
Total	3213	3186
ROOM WITH COMPLEMENTARY BREAKFAST	BEFORE GST	AFTER GST
Room tariff	2,200	2,200
Complimentary breakfast	500	500
Luxury charge on stay charges(10% as Maharashtra)	220	
Service tax@9%	198	
VAT @14.5% on food	73	
GST @18%		486
Total	3191	3186
LUXURY WITH COMPLIMENTARY BREAKFAST	BEFORE GST	AFTER GST
Room tariff	8000	8000
Complimentary breakfast	2500	2500
Luxury charge on stay charges(10% as Maharashtra)	800	
Service tax@9%	720	
VAT @14.5% on food	363	
GST @28%		2940
Total	12383	13440

*Breakup of hotel prices pre and post GST***VII. GST IMPACT ON HOSPITALITY INDUSTRY**

In GST period, the hospitality industry gets the advantage of standardised and decide tax rates. The use of input tax credit (ITC) has become simpler and better. Complimentary food (Free breakfast with room) that was separately taxed under VAT as a bundled service under the GST system.

A positive effect of GST on hotels, the end cost to be paid by the final consumers will decrease, which will help to attract more tourists and push up the growth of businesses in this industry. Conversely, it will also increase the revenue collection of the government.

Most hotels in India follow a dynamic pricing policy, where they decide upon the tariffs manually as per the number of tourists expected in a certain season. The tariff, therefore, keeps changing according to the demand and supply forces. Since the GST rates vary for different tariff levels, hotels have to ensure that their billing software also changes the tax rate as per the room tariff throughout the distribution channels comprising travel agencies and online aggregators. Making such changes in the billing systems could take some time.

Positive aspects of GST:-

The **Goods and Services Tax** has brought some relief for the hospitality industry through:

> Ease of administration:-

Due to implementation of GST, the multiple state and central taxes levied on the tariffs of hotels have been done away with. This has helped to decrease the burden of different procedures of tax application and has resulted in better understanding of customers.

Tourists staying in hotels and availing some special services were largely confused by the burden of taxes in their bills. For most of them, it was difficult to understand the difference between VAT, service tax and luxury tax. Under the GST system, they will be only one collective tax on their invoice, which will give them a clearer picture of all tariffs they are paying.

Enhanced quality of service

Many tourists have had the inconvenient experience of waiting in the hotel lobby while their bill was being prepared. It took much more to add the different tax components and prepare the final bill to be paid by the customer. With GST, the managers have to calculate only one tax which makes the checking-out process from hotels quicker and simpler.

> Ease of using Input tax credit

Entities in the hotel and travel industry can now easily claim and get input tax credit. They are entitled to get full ITC (Input tax credit) on the inputs that they add. Due to the division of revenue between the centre and state governments, the multiple taxes paid just before GST regime on inputs – like cleaning supplies, uncooked edibles could not be adjusted against the output. The calculation of ITC is much easier in the GST system.

> Reason behind the implementation of GST is to abolish the cascading effect on tax. A product on which excise duty is paid can also be liable for VAT. Suppose a product A is manufactured in a factory. As soon as it is released from factory, excise duty has to be paid to central government. When that product A is sold in same state then VAT has to be paid to state government. Also no credit on excise duty paid can be taken against output VAT.

> The GST is being introduced to create a common market across states.

> GST will lead a more transparent and sequential manner to raise revenue.

> Price reduction as a credit of input tax is available against output tax.

> Benefit of GST for both economy and corporations. The reduced tax burden on companies will reduce production cost making exporters more competitive in the market.

Negative aspects of GST:-

> The GST for travel industry and hotels also comes with its share. The hotel charging over Rs.7500 are worst hit by the tax rate of 28%, as their final prices for customers will increase significantly.

> Looking ahead, GST can hit the inflow of foreign tourists to India. Other Asian countries such as Japan and Singapore impose tax rates as 8% and 7% on their hotel and travel industry. This can become a biggest factor in making them more preferred tourist places as compared to India.

> The trade associations of hotels and restaurants have been protesting for a lower tax rate of 5%, but it starts at 18% for a majority of them. The value of tourism industry in India is expected to grow up to \$280.5 billion in the next 10 years.

> Tax rate of 18%, is three percentage points higher than the current 15% services tax.

> GST is being referred as a single taxation system but in reality it is a dual taxation system in which state and central government both collect separate tax on a single transaction of sale and service.

> All the goods and commodities are not covered by the central excise and further there is an assumed limit of Rs1.50 Crores in the central excise and further traders are not liable to pay all the central excise. The central excise is payable up to the stage of Manufacturing but now GST is payable up to the stage of sale.

> The calculation of RNR (Revenue Neutral Rate) is very difficult and further Govt. wants to enhance its revenue hence rate of Tax will be a biggest problem. As per the News reports the proposed rate for State GST is 12% and Central GST is 14%.

Improvement in the Manufacturing and distribution of Goods and service, increase in exports, various reforms, check on corruption, less Government control are some factors which are responsible for the drastic economic growth of the country. A tax system can make a revolution in the economy of the country which is a “rarest of the rare” thing.

VIII. CASE STUDIES:-

1. 'GST has brought down hotel industry business by 20%'

Excerpts from the interview from Hindustan Times, Ganesh Shetty, President of Restaurant and Hoteliers Association, Pune, said business has been down by 20%.

➤ **Effect of GST in hotel industry in Pune in the first month:-**

"Since last month, we have observed that people in general are avoiding the hotel industry. We can see the negative impact of GST on our business as it has come down by 20%. This is not only limited to Pune but all hotels in India."

➤ **Problems faced due to GST**

"We faced a lot of problems during the first 15 days. After that we upgraded our billing machines and menu cards to make us ready for the new tax regime. Many hoteliers were very unaware about tax slabs but our association helped them sort out problems."

➤ **Preparation for the new tax slab**

"We had changed our menu card and billing machines. There are very few printer who print menu card so there was a rush in the market to upgrade the menu card. After 15 days, we managed the situation and started purchasing raw material from registered suppliers."

➤ **The new GST slab**

"Before GST, there was only 5% service tax but now there is 12% GST on non AC restaurants and 18% on AC restaurants. We are not happy about it because it will burden the consumer's pocket by a minimum 7% extra charge, which will in turn affect our business."

➤ **What are you going to do about the new GST slab?**

"Our delegation has already discussed with finance minister Arun Jaitley, state finance minister Sudhir Mungantiwar regarding the slab. They seem to be positive about it. The GST council meet has been planned for August 5 and hence, we are expecting something positive from that meeting."

➤ **Demands of Restaurant and Hoteliers Association**

"See all restaurants serve common food like misal, vada pay, which is considered as food for the common person. Therefore, government should rethink the tax slab. Government charges 18% GST for a five star hotel but why should a small restaurant come under the 18% slab."

➤ **Some restaurant owners in Pune are giving discounts. Is it a way to lure customers?**

"No, it's not like that. They are offering discounts because they do not have the updated menu card. Hence, they give 5% discount on the menu card amount and charge GST on the bill. Now most of the restaurant owners have updated their menu cards and bill book."

➤ **Effect of GST on your supply chain**

"Our supply chain also got affected because of GST. In the first 15 days, there were a number of problems faced by them. But now all suppliers have registered."

➤ **Government said the prices of raw material required for hotel industries will decline soon. What do you think?**

"Yes, they had announced this. We are ready to wait for 2-3 months. The whole picture about hotel industries will be clear within the next few months."

2. Jubilant gets GST notice for not cutting Domino's pizza price.

➤ The Directorate General of Safeguards (DGS) has served a notice to Jubilant Food Works under the GST anti-profiteering rules for allegedly not passing on tax reduction benefit to consumers of its Domino's Pizza.

➤ The standing committee had referred the matter to DGS which in turn issued notice to Jubilant seeking response on whether the benefit of GST rate cut in November last year was passed on to consumers, a source said.

➤ "There were complaints from two consumers to the standing committee regarding over-charging by Domino's Pizza even after the GST rate was cut to 5 percent from 18 percent," the source told PTI.

➤ In an e-mailed response to queries sent by PTI, Jubilant said: "We are in a silent period now, we won't be (able) to participate in any story. In November 2017, the GST Council cut tax rates for all restaurants, except the ones located within hotels with room tariffs of Rs 7,500 and above, to 5 percent. Prior to reduction, GST was 18 percent for air-conditioned restaurants and 12 percent for non-air-conditioned restaurants.

➤ As part of its investigation, DGS had asked the company to submit any document it wants to in order to defend its case. "Jubilant has replied to the notice in its defence. We are analysing the response and if required further queries would be raised," the source added.

➤ In its defence, the company had to give price list of pre and post GST reduction by Domino's Pizza in November.

➤ "GST rate was reduced to 5 percent, but without the benefit of input tax credit. However, the earlier 18 percent was charged with input tax credit. So DGS has to ascertain the propionate price reduction that Domino's should have passed on to customers," the source added.

➤ After examining the documents, DGS gives its report to the Anti-Profiteering Authority for further action, which may include fine and extreme penalty like cancellation of registration.

➤ DGS, entrusted with the task of investigating the cases of profiteering under GST regime, had in December 2017, served notices to franchisee of McDonald's family restaurant -- Hard castle Restaurant.

➤ Besides, based on complaint filed by a departmental store, DGS also sent notices to Lifestyle International and Honda dealer. In January 2018, DGS had served notice to HUL for not passing on the benefit of tax rate cut from 28 percent to 18 percent.

➤ As per the structure of the anti-profiteering mechanism in GST regime, complaints of local nature will be first sent to the state-level 'screening committee', while those of national level will be marked for the 'standing committee'.

➤ If the complaints have merit, the respective committees would refer the cases for further investigation to DGS. DGS is mandated to complete its investigation within 3 months, and may seek an extension of further 3 months from the standing committee.

3. **GST on Langar: LGPC demands rollback**

- The Shiromani Gurudwara Parbandhak Committee (SGPC), which manages all Gurudawaras, and Union Food Processing Minister Harsimrat Kaur Badal has urged the Centre to exempt the free kitchens at the Golden Temple and other Sikh shrines from the purview of the Goods and Services Tax (GST).
- The Lucknow Gurudawara Pabandhak Committee (LGPC) has also demanded for immediate withdrawal of GST on Langar all across the country.
- It was the first time in the Indian history that GST was being levied on 'Langar'. LGPC President Rajendra Singh Bagga said while addressing a press conference.
- Earlier, the procurement bill of langar items such as ghee, sugar and pulses cost around Rs 75 crore annually, SGPC chief secretary Harcharan Singh told The Hindustan Times.
- With the shift from VAT to GST, a tax of 12 per cent will be imposed on desi ghee, 18 per cent on sugar and 5 per cent on pulses, raising the financial burden by Rs 10 crore annually, he added.
- Former Uttar Pradesh minister and MLC Balwant Singh Ramoowalia, who was also present in the conference, claimed that till December 31, 2017, the Centre had collected Rs 2 crore from the Gurudawaras.
- Under the new GST Act, there is a provision for exemption to institutions and businesses on the recommendation of the GST Council.
- Punjab Chief minister Capt Amrinder Singh recently announced that the state will forgo half of the GST levied on food items coming to Golden Temple, Amritsar.

IX.CONCLUSION

It has been concluded that the companies that specialize in food and beverages are most benefitted one by GST within the hospitality sector. The restaurant industry had been burdened with high and multiple taxations. Earlier food and beverages bill had multiple components that would inflate the bill by 30-35%. A single-slab tax, GST, is benefitting consumers and saves up to 10-15% on the overall bill.

However, liquor should have been 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 concept of separate liquor taxation 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 earlier had additional luxury taxation which used to greatly impacts room rates. While India aspires to be competitive with the world it was only logical that their tax structures were competitive too. Luxury and other service taxes in hospitality would amount to more than 22%, compared with the 18% under the GST regime. Overall, GST seems to be more positive for this sector.

GST seems to be the pinnacle which aims at evolving an efficient and harmonized consumption or destination-based tax system which will remove the problems faced by the sector leading to cost optimization and free flow of transactions.

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