EFFECTS OF GST IN HOSPITALITY INDUSTRY

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GST – 'ONE NATION ONE TAX'

Abstract:

Indian Industry's reaction to the GST implementation was mostly positive, qualifying it with hopes of further simplification of rules and consolidation of rates in the near future. The hospitality industry, like every other sector in the Indian economy, was liable to pay multiple taxes as VAT, luxury tax, and service tax under the previous VAT regime. The following statement from Confederation of Indian Industry (CII) clearly reflects our industry's mind-set. Sometimes later, the Government should commit to converge to one or two rates. It is also important that the bulk of goods and services should fall within the standard rate of 5% and only as exception to go to the higher rate of 28%. GST is a better and easier rules and regulations, and increased costs and compliances. The Tourism and Hospitality industry in India is expected to grow to US$ 280.5 billion by 2026, and the initial hiccups after GST implementation are highly suspect to impede this growth. However, it remains to be seen whether the cons outweigh the problems for this industry.

Keywords: GST, hospitality, tax, tourism, industry

Introduction:

India took a momentous step on 1st July 2017 is implementing the leading indirect tax reform since independence when it opted for a four-tier GST structure, 5% to 28%, which will subsume various state and central taxes up till now in place, to help create a seamless national market. Indian Industry's reaction to the GST implementation was mostly positive, qualifying it with hopes of further simplification of rules and consolidation of rates in the near future. The following statement from Confederation of Indian Industry (CII) clearly reflects our industry's mind-set.

"*Over time, the Government should commit to converge to one or two rates. It is also important that the bulk goods and services should fall within the standard rate of 18% and only as exception to go to the higher rate of 28%*".

Hospitality Industry and Its Diversity of Taxes:

The hospitality industry, like every other sector in the Indian economy, was liable to pay multiple taxes as VAT, luxury tax, and service tax under the previous VAT regime. If a hotel room tariff has exceeded INR 1,000 was liable for service tax of 15 % but a reduction of 40% was allowed on the tariff value, thus bringing the effective rate of service tax down to 9%. The Value Added Tax is ranging between 12 % to 14.5 % and luxury tax, would apply on the above said tariff. However, for restaurants, there was 60% of reduction which meant that the service tax was charged at an effective rate of 6% on the F&B bills, apart from VAT of 12 % to 14.5%. Bills for group services like social functions seminars, marriage etc., were taxed with an abatement of 30%. The tumbling effect of the VAT regime where the end consumer paid a tax on tax increases the end cost. Hoteliers and hospitality businesses did not get any input tax credit on the taxes they paid, as central taxes like service tax, could not be set off against state taxes (VAT) and vice-versa.

Hospitality Industry under the GST Regime:

Under the Goods and Service Tax, the hospitality sector stands to gain the benefits of standardized and uniform tax rates, as well as easy and better utilization of input tax credit. If the final cost to end user decreases, we can expect the industry to attract more overseas tourists than earlier. This would idyllically result in improved revenues for the government, and there are many pros to this new tax regime which could help the industry's growth in the long run. But in case, if the complementary food like breakfast was taxed separately under VAT, but now it will be taxed under GST as a bundled service. Let's have a look at the rates for this industry in detail:

Different Structure of GST in Hospitality Industry:

Type of Hotel and Tariff	Applicable GST Rate
Services by a hotel, inn, guest house, club or campsite, having declared tariff of a unit of accommodation less than Rs.1000/ per day or equivalent	NIL
Renting of hotels, inns, guest houses, clubs, campsites having room tariff Rs.1000 and above but less than Rs.2500/- per room per day	12%
Renting of hotels, inns, guest houses, clubs, campsites or other commercial places meant for residential or lodging purposes where room tariff of Rs. 2500/ and above but less than Rs.7500/- per room per day	18 %
Accommodation in hotels including 5 star and above rated hotels, inns, guest houses, clubs, campsites or other commercial places meant for residential or lodging purposes, where room rent is Rs.7500/- and above per night per room	28%

Type of Restaurant	Applicable GST Rate
Restaurants with Annual Turnover of upto Rs. 20 lakhs	Nil
Restaurants with Annual Turnover of upto Rs. 50 lakhs and opting for compensation scheme	5%
Supply of Food/drinks in restaurant not having facility of air conditioning or central heating at any time during the year and not having licence to serve liquor.	5%
Supply of Food/drinks in restaurant having licence to serve liquor	5%
Supply of Food/drinks in restaurant having facility of air-conditioning or central heating at any time during the year	5%
Supply of Food/drinks in air-conditioned restaurant in 5-star or above rated Hotel	18%

Eligibility of Input Tax Credit:

Accordingly, many registered persons shall be able to claim credit of their tax payments on infrastructure development except those in respect of which input tax credit is specifically not allowable. Since existing assesse will also be eligible to take credit of their capital goods on hand as shown in their books of accounts for which documents like invoices are available as per Rule 5 of Input Tax Credit Rules, it will also create substantial credit on hand as on appointed date of GST and results into elimination of cascading effect on transition to GST regime.

Taxability in Proposed Tax Organisation Place of Supply generally & Applicable Taxes and ITC (Input Tax Credit)

S.No.	**Specifics**	**Place of Supply**	**Applicable Taxes**	**Input tax Credit Allowed for**
1	Room Rental	Location of Hotel, Guest House, Club, Resort, boat, vessel	CGST & SGST	Inputs, equipments, furniture, consumables etc.
2	Restaurant Services	Location of Restaurant	CGST & SGST	Inputs, equipments, furniture, crockery, consumables etc.
3	Exhibition Services/Entertainment Parks & Sports Activity/Entry Fees to Monuments and Public Place	Location of Exhibition, celebration or similar events	CGST & SGST	Inputs, equipments, furniture, crockery, consumables, Structures used for setting up exhibitions, etc.
4	Rent a Cab Services / Air Tickets/Train Tickets/Cruise & Ship Services/State Transport Service	Location of Service Recipient if recipient is registered	CGST & SGST (If location of supplier and place of supply are in same state or union territory)	Aircrafts, Vehicles, Train, Inputs and Consumables used for providing services, lubricants etc.

			IGST (If location of supplier and place of supply are in different states or Union territories)	
5	Services on Board of Aircraft/Train/Ship/Motor Vehicle	Location of a the first scheduled point of departure of that conveyance for the journey	-Do-	Inputs, equipments, furniture, consumables etc.
6	Money changing Services/Visa Service/Tour Operator	Location of Service Recipient	-Do-	Input Services consumed and goods like office equipment, furniture, computers etc.

The Specialities of GST

Administrative Ease:

GST will eradicate several other taxes such as service tax, VAT, leading to a reduction in procedural steps and more chances to streamline the taxation process. Lot of services in this sector comes in the form of a bundle. It would thus have to be seen whether the services being provided are composite in nature or a mixed supply. Both composite and mixed supplies have been defined separately under the GST Law.

Clarity for Consumers:

It will take sometimes to differentiate between a Value Added Tax and an entertainment tax for the common public. But, in the GST system the buyers will see only a single charge on their bill and it would give them a clear picture of the tax they are paying.

Availability of Input Tax

The tourism and hospitality industry will find the GST is easier to claim and avail input tax credit (ITC) and will get full ITC on their inputs. Before GST, the tax paid on inputs for raw edibles for food, cleaning supplies etc.) could not be adjusted against the output without any complications. However, this will become easier in the GST system.

State Revenue:

Because of GST, the States having maximum number of tourist places, hotels or restaurants for tourist shall earn the maximum revenue by SGST which will be equivalent to CGST. So, if the rates come to 9% each (i.e. 9% CGST & 9% SGST) than also their total revenue shall substantially increase. As per the

Ministry of Tourism record top 5 states with highest local and foreign tourist footfall is Tamil Nadu, Uttar Pradesh, Maharashtra, and Delhi & Rajasthan. So, these states' revenue shall increase.

The Crooks of GST

Increased Technological Burden

When the Service tax was first introduced, there were a lot of mix ups. But GST has very clear guidelines on how each industry needs to manage their accounts and file returns but it will require businesses to become technologically practiced, increasing the technological burden and cost for compliance.

Increased Costs:

In India, for instance, hotel rooms were earlier taxed at 19% and food and beverage at 18.5%. Even with GST was charged at 18%, there is only a minimal cost reduction in both cases. Businesses will also look to recover the additional cost of technology and new systems from their customers, which might, in some instances be lead to higher tariffs.

Lack of Parity with Asian Counterparts

India is one of the bigger player in the global hospitality and tourism industry, we need services to be at par with global rates. But our Asian neighbours such as Japan and Singapore have very low tax rates for their hospitality sector such as 8% and 7% respectively which is an important reason for them ranking high on tourist wish lists. India is a global tourism hotspot, but it still loses out on the travellers due to these high rates.

Conclusion:

GST is a varied of better and easier rules and regulations, and increased costs and compliances. The Hotel and Restaurant Association of Western India had been pushing for a GST rate of 5% as it believed that a lower rate will bring in more tourists and allow Indian businesses to strive with global chains. However, the GST Council estimated it fit to set the rate of 18%. The GST can evidence to be a major benefit for the tourism and hospitality industry. The process to claim and avail ITC (input tax credit) is simple and clear. The Tourism and Hospitality industry in India is expected to grow to US$ 280.5 billion by 2026, and the initial hiccups after GST implementation are highly unlikely to impede this growth. However, it remains to be seen whether the constraints outweigh the problems for this sector.

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