

A STUDY ON THE IMPACT OF GST ON FAST FOOD IN TIRUCHIRAPPALLI CITY

KANNAMMAL. G

Ph.D Research Scholar, Department of Economics, St. Joseph's College, Tiruchirappalli, TN

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Dr.M.SUVAKKIN

Assistant Professor, Department of Economics, St. Joseph's College, Tiruchirappalli, TN.

Abstract

In India presently we pay two types of taxes i.e. Direct and Indirect taxes. Direct Tax is paid directly to the government by the taxpayer in form of Income Tax, Wealth Tax, and Corporate Tax. Indirect Tax is a tax levied on goods and services rather than on income or profits. Fast Food industry in India comes under the GST system of taxation and is the fastest growing sector. Due to the changes in tax collection framework the development of food industry is being affected. The introduction of Goods and Services Tax has created some perplexity in the fast food industry. The concept of goods and services tax was implemented to combine several commodity tax schemes which was before embraced by the retailer in order to make money. This restructuring will bring changes in the cost for the tax payer. Under the system of GST, the tax system will change into uniform entity across states and the tax structure will also be uniform. The fast food sector was overloaded with multiple high costing taxes under previous tax collection framework. Before consumers used to pay VAT, service tax and additional service charge on fast food restaurant bills but under GST all the extra and needless charges have been reduced. This paper attempts to study the effect of GST on the prices as well as consumption demand of fast food among fast food consumers in Tiruchirappalli city.

Key words: GST, Consumers, Fast food

Introduction

The Goods and Services Tax (GST) is a value added tax levied on most goods and services sold for domestic consumption. The GST is paid by consumers, but it is remitted to the government by the businesses selling the goods and services. In effect GST provides revenue for the government.

In India, before GST was implemented, different types of indirect taxes existed. From the production of the product up to its sale there were many taxes levied in India (sales tax, service tax, production tax, custom tax, MOVAT and VAT). The government of India under the leadership of Prime Minister Narendra Modi decided to combine all the different type of commodity service taxes into one single tax that would be uniform throughout the country. This new single commodity and service tax was named Goods and Service Tax (GST). It began to be implemented in India from the mid night of July 1, 2017 after Parliament of India passed the GST bill. These slab rates of GST were fixed at 0%, 5%, 12%, 18% and 28%.

GST in food

All essential items, fresh foods like vegetables, fruits, milk, butter, meat, chicken, fish etc., came under 0% of GST. The other commodities and services were levied higher GST rates. Processed food products such as instant food, packed food, frozen food, tinned food, fast food and food sold in all types of restaurants were brought under 12-18% of GST, during the initial month of GST implementation. Later on GST on food sold in restaurants was reduced from 12-18% to 5%.

Review of related studies

As per the report of 2018 restaurants, cafes and fast-food outlets would need to stabilize prices in order to maintain the footfalls and keep business thriving, while customers may need to frequently calculate the ramifications of how much they would be shelling out depending on the 'where' of this scenario. Giving up on a little bit of comfort can help you save an excess of 7-13% on something as harmless like mithai, dhokla and other snack item. But the good news is, it would be spared considerable decision fatigue on choosing between sitting indoors and outdoors at an AC restaurant since it will be taxed just the same, no matter where you sit and dine. The study deals with bringing on pure chocolate items and ordering in from the favorite fast-food outlet will prove costlier.

Kunal Wadhwa 2018 studied that the Food and fast food industry, as no ITC is allowed, any GST paid is a cost, which would influence restaurants to avoid incurring such expenses, attracting high GST. The study concludes that the only way to encourage use of technology and to incentivise restaurants to use online delivery partners is by reducing the GST rate, which would aid to the growth of this theme".

Thornton Grant 2018 studied that the food and fast food industry in Mumbai and Bengaluru feels the impact of Goods and Services Tax (GST) has been largely positive, but lack of clarity on regulations remains a major hurdle, according to a survey. The study found that 70 percent of the restaurant owners in the two cities believed GST is a positive decision for the industry, while 68 per cent businesses felt it will ease compliance since it is backed by technology.

As per the report of 2018 the smaller outlets like food courts, dhabas, and coffee bars cater to large segments of population on daily basis. The maximum people who fall in this business category earn modest income and thus the new tax format is likely to come under criticism. This result showed that all kinds of food and fast foods industry whether it is AC or non-AC will definitely collect the higher rate and this will bring an overall price hike in food items.

Statement of the problem

After the implementation of the GST prices of fast food have increased but comparatively consumption has not reduced. Therefore GST seems to have no impact on consumer preference towards fast food.

Objectives of the study

1. To study the effect of price rise of fast food after the implementation of GST.
2. To study the consumption situation of fast food after implementation of GST.

Methodology of the study

50 respondents who consumed fast food in KFC and Dominos pizza restaurants in Tiruchirappalli city where interviewed with the help of the questionnaire on a random basis. The restaurant salesmen were also interviewed to find out the changes in the prices of fast food after GST. The study is made with the combination of both primary and secondary data.

Result and Discussion

The demographic characteristic of the sample respondents reveals that majorities i.e., 68 percent of fast food consumers were male, 32 percent of fast food consumers were female. 63 percent of fast food consumers in Tiruchirappalli City were aged between 21-25 years and 63.40 percent of respondents belong to nuclear families. Majority of the sample respondents have visited the branded fast food outlets weekly once. Further, it has been observed that 69 percent of sample respondents' in Tiruchirappalli City prefer to dine in KFC restaurant.

Interpretation

Table No - 1

Fast food prices of before GST and after GST of International Fast food outlets in Tiruchirappalli city

Food outlets in Trichy city	customers	Dish	Product price including (VAT 14.5% + Service tax 10%)	Product price including GST Initial stage of 18%)	Product price including GST Current stage of 5%)	Price variation of before and after the GST
Dominos	20	Double size of cheese pizza(1)	243	242	215	-28
KFC	30	5 in Rice Bowl 2pc Hotwings Fillusbury Reg Pepsi	161	223	199	+38

Source: Compile primary data

This table shows that number of fast food consumers before GST and after GST of Dominos and KFC fast food restaurants in Tiruchirappalli City. Consumption of pizza during VAT the existence of at 10% and other service taxes at 10%, Dominos charged Rs 243 for one pizza. After the GST rate of 18% was implemented Dominos charged Rs 242 for one pizza. Similarly after the GST was reduced to 5% in November 2017, Dominos charged Rs 215 for one pizza. It shows that after the GST was implemented Dominos pizza rate is has decreased. Consumption at KFC during VAT at 10% and other service taxes at 10% KFC charged Rs 161 for one set of 5 in Rice Bowl varieties. After the GST rate of 18% was implemented KFC charged Rs 223 for one set of 5 in Rice Bowl. Likewise after the GST was reduced to 5% November 2017, KFC charged Rs 199 for one set of 5 in Rice Bowl. This table clearly shows that prices after the GST at KFC have increased.

Table No - 2

Number of fast food consumers of before GST and after GST of International Fast food outlets in Tiruchirappalli City

Fast food outlets	Number of fast food customers in before GST (June 01 st 2017 to June 30 th 2017)	Number of fast food customers in initial stage of GST (18%) (Oct 1 st 2017 to Oct 30 th 2017)	Number of fast food customers in current stage of GST (5%) Oct 1 st 2018 to Oct 30 th 2018)	Fast food Customers variation of before and after the GST
Dominos Pizza	2760 (92)	2730 (91)	2790 (93)	20
KFC	2790 (93)	2580 (84)	2820 (94)	30

Source : Compile primary data

This table depict the number of fast food consumers before GST and after GST of two branded fast food restaurants in Tiruchirappalli City. Before GST at the time of VAT at 14.5% and other service taxes at 10%, consumers of Dominos pizza were 2760 for a month from 1st June to 30th June 2017 (30 days). After a GST of 18% was an implemented Dominos pizza consumers were 2730 for a month from 1st October to 30th October 2017 (30 days). Likewise after the GST was reduced to 5% in November 2017, consumers of Dominos pizza were 2790 in the month from 1st October to 30th October 2018. Before GST at the time of VAT 14.5% and other service taxes 10% consumers of KFC 2790 for a month of 1st June to 30th June 2017. After a GST of 18% was implemented KFC consumers were 2580 for a month from 1st October to 30th October 2017. Likewise after the GST was reduced to 5% in November 2017, consumers of KFC were 2820 for the month from 1st October to 30th October 2018. Therefore fast food consumer increased in number the GST was implemented by KFC and Dominos.

Findings

1. Price of Dominos pizza during VAT, other service taxes and after the GST rate of 18% in initial stage was increased and GST rate of 5% has currently decreased.
2. The consumption of pizza before the application of GST and after its levy shows no change in the status of consumer preference of fast foods.
3. Price of KFC when compared to the period of VAT other taxes decreased after GST was implemented. After the GST rates of 18% in initial stage it increased being and GST with reduced to 5% prices increased.
4. The consumption of KFC food products before GST was high and after the GST rate of 18% in initial stage consumption declined.

Conclusion

Food prices at KFC were reasonable before GST. But after GST food prices of the same products went up. At present GST has been reduced heavily but KFC has not reduced the prices because before GST food restaurant and fast food restaurant got the benefit of Input Tax Credit (ITC) and after the GST was implemented all hotels food and fast food restaurants get earning 50 lakhs per year to pay the GST. But after the GST was implemented food restaurants; fast food restaurants do not get the benefit of ITC. After the GST fast food prices went up yet the fast food consumption has not decreased. That is the reason why fast food outlets like KFC are

introducing combo offers, discount coupons and other marketing strategies. Domino pizza decreased food prices after GST pizza consumption is low because domestic pizza is easily available and less expensive.

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