

General Effect of GST in Hospitality and Tourism Industry

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Abstract

Goods and Services Tax (GST) is an indirect tax which was introduced in India on 1 July 2017 and was applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. It was introduced as The Constitution (One Hundred and First Amendment) Act 2017, following the passage of Constitution 122nd Amendment Act Bill. In this paper we will know about the general effect GST in tourism and Hospital industry and its fact about world tourism. In this paper, the study is about the rates pertaining to the GST in Hospitality and Tourism Industry. To know about the facts and its contribution towards GDP.

Introduction

GST (Goods and Services Tax) is the biggest indirect tax reform of India. GST is a single tax on the supply of goods and services. It is a destination based tax. GST has subsumed taxes like Central Excise Law, Service Tax Law, VAT, Entry Tax, Octroi, etc. GST is one of the biggest indirect tax reforms in the country. GST is expected to bring together state economies and improve overall economic growth of the nation

Objective

Primary Objective

- To Study about the effect of GST in Hotel and Tourism Industry.

Secondary Objective

- To know about the fact of world tourism
- To know the highlights of new GST Rates
- To know about the segmentation
- To Know about advantage India

Source

- Secondary Data – Website, Journal

Facts about World Tourism

1. GDP: Direct Contribution

The direct contribution of Travel & Tourism to GDP was USD2, 570.1bn (3.2% of total GDP) in 2017, and is forecast to rise by 4.0% in 2018, and to rise by 3.8% pa, from 2018-2028, to USD3, 890.0bn (3.6% of total GDP) in 2028

2. GDP: Total Contribution

The total contribution of Travel & Tourism to GDP was USD8, 272.3bn (10.4% of GDP) in 2017, and is forecast to rise by 4.0% in 2018, and to rise by 3.8% pa to USD12, 450.1bn (11.7% of GDP) in 2028.

3. Employment: Direct Contribution

In 2017 Travel & Tourism directly supported 118,454,000 jobs (3.8% of total employment). This is expected to rise by 2.4% in 2018 and rise by 2.2% pa to 150,139,000 jobs (4.2% of total employment) in 2028.

4. Employment: Total Contribution

In 2017, the total contribution of Travel & Tourism to employment, including jobs indirectly supported by the industry, was 9.9% of total employment (313,221,000 jobs). This is expected to rise by 3.0% in 2018 to 322,666,000 jobs and rise by 2.5% pa to 413,556,000 jobs in 2028 (11.6% of total).

5. Visitor Exports

Visitor exports generated USD1, 494.2bn (6.5% of total exports) in 2017. This is forecast to grow by 3.9% in 2018, and grow by 4.1% pa, from 2018-2028, to USD2, 311.4bn in 2028 (6.9% of total)

6. Investment

Travel & Tourism investment in 2017 was USD882.4bn, or 4.5% of total investment. It should rise by 4.8% in 2018, and rise by 4.3% pa over the next ten years to USD1, 408.3bn in 2028 (5.1% of total).

Highlights of New GST Rates:

- Restaurants with a turnover of less than Rs 50 lakh will be levied a tax rate of 5 percent.
- Non-AC restaurants will have a 12% tax rate.
- AC restaurants will have to shell out 18% tax.
- Hotels, lodges with tariffs less than Rs 1,000 will be taxed at 0%.
- Hotel lodges with tariffs between Rs 1,000 - Rs 2,500 will be charged 12% tax.

- Hotel lodges with tariffs between Rs 2,500 - Rs 7,500 will be charged 18% tax.
- Hotel lodges with tariffs above Rs 7,500 will be charged 28% tax

Segmentation

- Segmentation must be identifiable – to measure
- Segmentation must be accessible – through channels of communication
- Segmentation must be substantial – to utilize the available resources and make it profitable
- Segmentation must be durable – to maintain permanence and innovativeness

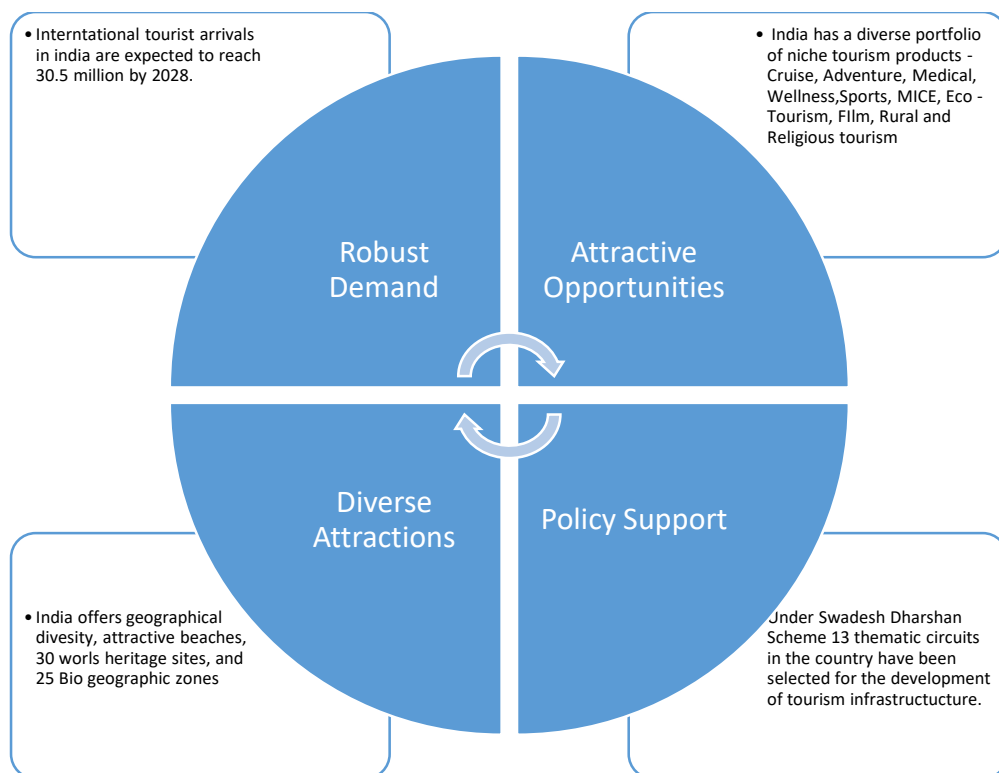
Emerging Tourism and Hospitality Segments

- Rural Tourism
- Medical Tourism
- Pilgrimage Tourism
- Advantage Tourism
- Eco – Tourism
- Luxury Tourism
- Heritage Tourism

Major Companies across Segments

- Makemytrip.com
- Taj Hotels Resorts and Palaces
- Jet Airways
- Thomas Cook





Advantage India

Source: IBEF.ORG

The Impact of GST on Accommodation

Accommodation is an inevitable part of all journeys. Now you are going to get the real benefits of GST in accommodations. Earlier rooms worth INR 5000 would have taxed 28% from your pocket. Now you need to pay this tax only for the rooms beyond INR 7500. See the below details for more details on accommodation

Price of Hotel Room Per Night (INR)	GST Rate %
< 1000	0
1001 – 2500	12
2501 – 7500	18
>7500	28

This is a right opportunity for the travelers to pick the best for them as per the GST. Backpackers would love to prefer the < 1000 INR rooms. But it's all up to the preference whether you are a backpacker or glam packer or luxury traveler.

The Impact of GST on Food & Restaurants

Restaurant industry is going to get the most benefits out of GST. The Overall cost of procurement of raw materials will go down. Most of the food items like milk, eggs, food grains, curd, common salt, sugar, tea,

edible oils etc. are either exempt from GST or are in the 5% tax bracket.

Price of Hotel Room Per Night (INR)	GST Rate %
Unpacked food Grains, Gur, Milk, Eggs, Curd, Lassi, Unpacked Paneer, Unbranded Honey, Fresh Vegetables, Unbranded Atta, Unbranded Maida, Unbranded Besan, Prasad, Common Salt	Exempted from GST
Sugar, Tea, Roasted Coffee Beans, Edible Oils, Skimmed Milk Powder, Milk Food for Babies, Packed Paneer, Domestic LPG	5%
Butter, Ghee, Cashew, Almonds, Sausages, Fruit Juice	12%
Pasta, Corn Flakes, Jams, Soups, Ice Cream	18%

Benefits

1. Tax Standardization

All the taxes would be replaced by a single tax, which is likely to be between 16%-18%. The sector may benefit in the form of lower tax rates which should help in attracting more tourists in India.

2. Greater Revenue for State Government

In case of Hotels and Restaurants the supply is shifted to a place where immovable property is situated. This increase the revenue for the states where they are located. Tax will be added on such income. While Union Government gets revenue from Service Tax on such services. Because of GST, the States having maximum tourist places, hotels or restaurants for tourist shall earn the maximum revenue by way of SGST which will be equivalent to CGST.

3. Saving in Food and Beverage operations

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 which inflate the bills by 30- 35%. It is expected that GST to result in savings of 10-15% on the overall bill.

Adverse effect

1. Multiple Registration

Service providers having centralized registration will have to get registered in each state from where they provide services. Although Government has been claiming “One Nation One Tax”, practically it is not going to be so. Service providers will have an option to take different registration for separate

business verticals which need to be examined on a case by case basis. Every state has been constitutionally granted right to collect GST on services.

2. Increased Compliance Burden

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. The concept of credit matching under GST would be very difficult to handle and would lead to increase in working capital requirements.

The frequency and number of returns to be filed will go up. In place of a half yearly service tax return, under GST law, one will be required to file state wise monthly three GST returns along with an annual return will also be required to be filed.

3. No Credit on Work Contract Services

The hotel industry spends a lot of money on construction and renovation. The money paid as taxes on the works contract services when supplied for construction of an immovable property is not allowed for this sector when such services are not used for the further supply of works contract service. This would have a negative cascading effect despite strong promises being made by the government in this regard.

Any proposal to make supplier of goods or services liable to pay tax under reverse charge when receiving supply from an unregistered supplier can increase burden in case of B2B transactions on registered assessee.

4. Liquor not included

Liquor should have been included in GST to ensure the seamless credit for the tourism industry. Exclusion of liquor from GST regime defeats the very purpose of bringing in a uniform tax structure across the nation.

Impact analysis of GST on Hospitality Industry:

Particulars	Before GST				After GST			
Tariff	1000	1500	5000	8000	1000	1500	5000	8000
Luxury Tax	40	120	600	960	NA	NA	NA	NA
Service Tax	0	126	420	672	NA	NA	NA	NA
Swachh Bharat Cess	3.0	4.50	15.00	24.00	NA	NA	NA	NA

Krishi Kalyan Cess	3.0	4.50	15.00	24.00	NA	NA	NA	NA
GST	NA	NA	NA	NA	No Tax	180	900	2240
Total	1046	1755	6050	9680	1000	1680	5900	10240

Swachh Bharat Cess & Krishi Kalyan cess = 0.5% on 60% of Tariff.

Note: Services like Complimentary breakfast which was taxed separately under the VAT regime will be taxed as a bundled service under GST.

Conclusion

- Under GST regime, the hoteliers will pay Tax for Services @18% while on average they are paying tax @10% under State Acts.
- The benefit of exemptions from luxury tax under the current structure for a room where daily tariff charges are less than the specified amount which is Rs.3,000/- in the State of M.P will not be given under the GST regime.
- India's hospitality industry, at least at the higher end of the spectrum, is extremely vocal about how the new GST rates may negatively affect the tourism sector. They are calling to reduce the 28 percent tax to 18 percent so that they can remain competitive with hotels in other countries. However, small businesses will surely benefit from the new GST regime
- GST is a glimmer of hope for the Hotel and Tourism Industry if we can keep the GST rate between 10 to 15%. GST might herald with its uniformity of tax rates, a better utilization of input credit which in turn benefits the end user in terms of affordability.

Source and References

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