

AN ANALYTICAL STUDY ON THE IMPACT OF GST ON THE HOSPITALITY INDUSTRY- AN ADVANTAGE FOR GUESTS OR HOTELS?

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ABSTRACT

Today, the hospitality sector (which includes tourism) is one of the fastest growing sectors in India with a growth rate of 8 per cent between 2007 and 2016. The boom in travel and tourism has led to the further development of the hospitality industry. Consequently, the hospitality industry is expanding globally and promoting its growth in a dynamic, diverse environment. Hotels contribute to the output of goods and related services which build the well-being of their nations and communities. India is the world's most attractive tourism spot which is why domestic and international tourists always have the country on their travel list.

In order to make use of this advantage and also streamline the tax system, the Government of India initiated the Goods and Services Tax bill in the Parliament on 1st July 2017. This introduction of GST affected the different taxes levied by the State governments on their respective tourist sites. The present study has been taken up to determine whether the GST system has increased or decreased the burden on the hotel industry as well as the tourists.

INTRODUCTION

Goods and Services tax, popularly known as GST is a comprehensive indirect tax that is levied on the manufacture, sale, and consumption of products and services across India. The GST regime revolutionised the imposition and collection of taxes by combining various taxes into one holistic tax. One of the industries that has been significantly impacted by the implementation of GST is the hospitality sector, which includes hotels, restaurants, and tourism. Several indirect taxes have been replaced with the GST, which has also uniformized the tax code across the nation. This has led to fairness in business dealings and led to ease of doing business. However, it is not a bed of roses as the new tax structure has also led to complexities for the hospitality sector, including higher compliance costs and fluctuation in the tax rates. Nonetheless, the GST has also increased the government's revenue generation and provided expansion chances for the hospitality industry through a rise in tourism.

The hospitality industry will profit from standard and uniform tax rates under the Goods and Service Tax, as well as from the simple and effective use of input tax credits. The sector will draw more foreign tourists than ever before as the overall cost to the end customer will decline.

There are several benefits to this new tax system that could support the industry's growth in the long run, and in theory this will increase government income. Breakfast, for example, was taxed separately under the VAT system but will now be taxed under the GST system as a bundled service. Let's take a closer look at the rates for this sector:

Table 1: GST Rates on Hotels Room Tariffs

S. No	Tariff Per Night	GST Rates
1)	Less Than Rs.1000	No tax(0%)
2)	Between Rs.1000- Rs.2499	12%
3)	Between Rs. 2500-Rs.7499	18%
4)	More Than Rs.7500	28%

Source- <http://www.gstcouncil.gov.in/>

The above table shows that the Under the GST regime, hotels and the restaurants are charged separately. Hotels will be charged with different rates depending on the value of tariff they are going to charge per night. Hotels with tariff less than Rs.1000 will not charge any GST. But hotels with more than Rs.1000 tariff and less than Rs.2500 per night are subject to charge GST at 12%. Hotels having tariffs between Rs.2500 and Rs. 7500 per night are subject to charge GST at 18%. Whereas five-star category hotels with tariffs more than Rs. 7500 per night are liable to charge GST at 28%.

THE IMPACT OF GST ON FOOD SERVICES & RESTAURANT BUSINESS IN INDIA

GST will subsume the service tax and VAT into one single rate, but catering bills are expected to include service charges along with GST. Detailed GST rates applicable to different types of Restaurants are shown in Table No 2.

Table 2: GST Rates on Eating Out

Restaurant type	Service tax	VAT	Serving/not serving alcohol	GST rate
Non A/C	6% (60% Abatement, pay only 40%)	14.50%	Serving/not serving alcohol	5%
A/C	6% (60% Abatement, pay only 40%)	14.50%	Serving/not serving alcohol	5%
Partly A/C, partly non A/C	6% (60% Abatement, pay only 40%)	14.50%	Serving/not serving alcohol	5%
5 star restaurant	6% (60% Abatement, pay only 40%)	14.50%	Serving/not serving alcohol	5%

Source: <http://www.gstcouncil.gov.in/>

The GST council has introduced rates applicable for various types of restaurants. Eating at a Non-AC restaurant not serving alcohol will be charged at 5% GST. Apart from it all restaurants, whether it be partly Air conditioned and partly non-Air conditioned, serving alcohol or not, completely Air conditioned, serving alcohol or not, including eating at luxury and five-star hotels will be charged GST at 5%. Food Truck businesses will not be affected by the implementation of the GST. Therefore, it is expected that such caterers will grow drastically in the near future.

PRE-GST MECHANISM OF RESTAURANTS AND FOOD SERVICE BUSINESSES

Value Added Tax (VAT) was used in all economic sectors prior to the introduction of GST. When value is added to an item before it is sold out, value added tax (VAT) is assessed on items that are sold out in an upgraded state. At various phases of their creation, distribution, and sale, goods and services require payment of VAT. In restaurants, pre-packaged items like meals and alcoholic beverages in bottles are not subject to VAT. It does, however, apply to food and beverages made in restaurant kitchens. Even within states, VAT differs from one to the other. Depending on the type of goods, it varies. That might be between five and twenty.

- a. VAT is leviable at 5% on cooked foods and snacks provided by a restaurant. ^[1]_[SEP]
- b. VAT is leviable at 20% on Cold drinks and at 14% on alternative non-food items. ^[1]_[SEP]
- c. Entry Tax is additionally payable at 1% on staple and incidental products utilized in the manufacture of cooked food. ^[1]_[SEP]
- d. Luxury Tax is additionally payable by out of doors caterers at 10% under LEAT Act with the sale ^[1]_[SEP]price being deducted on that tax which is vulnerable to be duly submitted under MPVAT Act. In ^[1]_[SEP]this context hospitals and academic institutions are exempted. ^[1]_[SEP]
- e. Under MP VAT Act tax on sale of alcoholic liquor to customers is levied at 5% ^[1]_[SEP]

POST-GST MECHANISM OF RESTAURANTS AND FOOD SERVICE BUSINESSES

The product is divided into five groups under this new tax system: those that are tax-exempt (0%), 5%, 12%, 18%, and 28%. Prior to the implementation of the GST, dining at a restaurant was more simpler. One might get their food there, pay the cost, and then depart. Prior to this, there were three additional fees to be paid: the service fee, service tax, and value-added tax (VAT). Yet, a dearth of information on GST has allowed restaurant proprietors a chance to con any customers into paying more. Customers need to understand the following in order to lead more intelligently.

First off, the fee charged as a service fee is not a tax. The restaurants impose service fees on their own initiative; it is not mandated by the government. But, customers are not required to pay if they choose not to. Whether the customer chooses to pay the fee or not is entirely up to them. Restaurants risk being sued in a consumer court if they make a customer pay a service fee.

The two taxes that must be paid are the service tax and the value added tax. Both of these levies have been absorbed by and replaced by GST. A 12% tax must be paid when dining in non-AC establishments. This 12% is made up of 6% state GST and 6% central GST. Restaurants in the area that deliver must charge the same fees. Nonetheless, regardless of whether alcohol is provided or not, a total of 18% tax must be paid if one is in an AC restaurant.

WHAT ARE THE BEST PRACTICES FOR THE HOSPITALITY INDUSTRY TO MANAGE THE COMPLIANCE REQUIREMENTS UNDER GST?

Managing compliance requirements under GST is important for the hospitality industry for several reasons. Firstly, it is a legal requirement, and non-compliance can result in penalties, fines, and legal consequences. Secondly, the hospitality industry can avail input tax credits for taxes paid on inputs, which can significantly reduce the tax burden. Proper compliance is necessary to claim these credits. Additionally, compliance with GST laws and regulations helps

establish transparency and credibility in the business dealings of the hospitality industry. It also helps avoid disputes and legal issues that may arise from incorrect tax calculation and payment. Proper compliance with GST laws and regulations can result in cost savings for the hospitality industry, as it ensures that the correct amount of tax is being paid and the right input tax credits are being claimed. In summary, managing compliance requirements under GST is crucial for the hospitality industry to comply with the law, reduce tax burden, establish credibility, avoid disputes, and save costs.

Some of the best practices for the hospitality industry to manage the compliance requirements under GST are:

2. **Keep detailed records:** Maintaining proper and accurate records of all transactions is crucial for GST compliance.
3. **Proper classification of goods and services:** Proper classification of goods and services is important to determine the correct rate of GST.
4. **Timely filing of returns:** Regular and timely filing of GST returns is essential to avoid penalties and legal consequences.
5. **Proper invoice management:** Proper invoice management and issuance is important to avoid any disputes and to claim input tax credits.
6. **Employee training:** Employees should be trained on GST rules and regulations to ensure compliance at all levels.
7. **Staying updated:** The hospitality industry should stay updated on changes in GST laws and regulations.
8. **Availing input tax credits:** Availing input tax credits is a key aspect of GST compliance, and the hospitality industry should ensure that all eligible credits are claimed.
9. **Working with a GST expert:** Working with a GST expert or consultant can help the hospitality industry navigate the compliance requirements and ensure a smooth GST compliance process.

HOW HAS GST AFFECTED THE COMPETITION WITHIN THE HOTEL INDUSTRY?

The GST has both positive and negative impacts on the competition within the hotel industry in India.

Positive impacts:

1. **Level playing field:** The GST has brought about a level playing field for the hotel industry by removing the cascading effect of taxes and simplifying the tax system. This has made it easier for smaller hotels to compete with larger hotels by reducing their tax burden.
2. **Easier to expand operations:** The GST has made it easier for hotels to expand their operations across state borders, as they no longer need to deal with different tax systems in different states. This can be particularly beneficial for hotels that are looking to expand their operations in multiple states.
3. **Improved competitiveness:** The GST has made it easier for hotels to be more competitive by reducing their tax burden and improving their operations. This can be particularly beneficial for smaller hotels that are looking to expand their operations.

Negative impacts:

1. **Increased tax burden:** The GST has increased the tax burden for hotels, which can make it difficult for small and medium-sized hotels to compete with larger hotels that have more resources to bear the additional costs.
2. **Complicated compliance requirements:** The GST compliance requirements can be complex, and hotels may need to invest in resources and manpower to ensure compliance. This can be particularly challenging for small and medium-sized hotels.

How can negative impacts of GST for the hospitality industry be mitigated?

The negative impacts of GST for the hospitality industry can be mitigated through a combination of measures.

Firstly, proper understanding of GST laws and regulations is crucial to comply with the laws and regulations correctly and reduce the risk of penalties and fines. Hospitals can obtain this understanding by attending training sessions, reading GST related materials, and seeking professional advice.

Secondly, availing input tax credits is another way to mitigate the negative impacts of GST. Hospitals can reduce their tax burden by claiming credits for taxes paid on inputs. Proper compliance with GST laws and regulations is necessary to claim these credits, and hospitals should seek professional advice if needed.

Thirdly, proper record-keeping is essential to comply with GST laws and regulations and avail input tax credits. Hospitals should maintain accurate records of all transactions and invoices related to their operations. This will help ensure that the correct amount of tax is being paid and the right input tax credits are being claimed.

Fourthly, the use of technology can help reduce errors and ensure compliance. Hospitals can use technology to automate their GST compliance process, which can help save time and reduce the risk of errors.

Finally, seeking professional advice from tax experts, accountants, and lawyers is another way to ensure compliance with GST laws and regulations and mitigate the negative impacts of GST. Professional advice can help hospitals reduce their tax burden, ensure compliance, and avoid disputes and legal issues that may arise from incorrect tax calculation and payment.

In conclusion, the negative impacts of GST for the hospitality industry can be mitigated through proper understanding of GST laws and regulations, availing input tax credits, proper record-keeping, use of technology, and seeking professional advice. By following these measures, hospitals can reduce their tax burden and ensure compliance with GST laws and regulations.

CONCLUSION

Overall, the GST has had a mixed impact within the hotel industry, with both positive and negative impacts. While the GST has brought about a level playing field and reduced the tax burden, it has made the compliance requirements more complex. The impact of GST within

the hotel industry ultimately depends on the specific circumstances of each hotel, including its size, location, and operations.

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