

Impact of GST on Hospitality Sector

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Abstract- *This paper aims to examine the impact of GST on hospitality sector. With introduction of GST reforms have been made in terms of taxation on availing hospitality. The impact is presented with comparison of Pre and Post GST context.*

Keywords: *GST Rates, Hospitality Sector, Income Tax Credit, Transaction Value*

1. INTRODUCTION

The Goods and Services Tax (GST) is a comprehensive, unified tax system introduced in India to streamline the indirect tax structure by replacing multiple taxes with a single tax on goods and services. Implemented on July 1, 2017, GST aims to simplify the tax process by integrating various indirect taxes, such as VAT, Service Tax, and Central Excise Duty, into one tax. It operates on a value-added tax mechanism, where tax is levied on the value added at each stage of the production and distribution process, and is collected at the point of consumption. This system seeks to enhance transparency by eliminating the cascading effect of taxes through input tax credits and improving compliance through digital reporting.

Structure of GST:

1. Three Main Components:

- CGST (Central GST): Collected by the central government on intra-state transactions.
- SGST (State GST): Collected by the state governments on intra-state transactions.
- IGST (Integrated GST): Levied by the central government on inter-state transactions and imports.

2. Tax Slabs:

- Goods and services are classified under various tax slabs—typically 0%, 5%, 12%, 18%, and 28%. Essential items are taxed at lower rates, while luxury goods fall under higher rates .

3. Input Tax Credit (ITC):

- Businesses can claim credit for the GST paid on inputs (raw materials and services). This reduces the tax liability by allowing businesses to offset the tax they pay on purchases against their tax liabilities on sales.

4. GST Council:

- In India, the GST Council, a joint forum of central and state governments, governs GST policy, ensuring cooperative federalism. The council determines tax rates, exemptions, and the tax structure

Objectives of GST:

Simplify Tax Structure:

- GST aims to simplify the indirect tax structure by consolidating various taxes under a single umbrella. It replaces numerous indirect taxes with one comprehensive tax, streamlining compliance for businesses.

Prevent Cascading of Taxes:

- By taxing only the value added at each stage, GST eliminates the cascading effect (tax on tax), which was prevalent in the earlier tax system.

Widen the Tax Base:

- GST seeks to bring more businesses under the formal tax system by encouraging registration and compliance, reducing tax evasion, and broadening the tax base.

Promote a Common National Market:

- GST fosters a unified national market by removing state-level tax barriers, promoting the seamless movement of goods and services across states.

Increase Government Revenue:

- GST's wider tax base and reduced tax evasion are expected to increase government revenue. By making the tax system transparent and efficient, it contributes to higher tax collection.

Boost Economic Efficiency and Growth:

- By reducing tax complexity and lowering costs, GST enhances economic efficiency, promotes ease of doing business, and boosts overall economic growth.

Improved Compliance

- The introduction of digital invoicing and real-time reporting under GST enhances transparency and helps in reducing tax evasion.

Boosting Investment

- The simplified tax system and reduced tax burden are expected to attract both domestic and foreign investments, contributing to economic growth.

Consumer Benefits

- By eliminating the cascading effect of taxes and encouraging competition, GST can lead to lower prices for consumers. GST helps consumers access a wider range of goods and services from various regions without being affected by differing tax rates.

GST and Hospitality Sector

Under the previous indirect tax regime, the Indian hospitality industry was liable to pay multiple indirect taxes such as VAT, Luxury tax and service tax. But with the commencement of GST regime, the Indian hospitality industry is expected to garner the benefits of standardized and uniform tax rates throughout the country. The industry can also get the benefit of better utilization of Input Tax Credit. It is expected that GST will reduce costs for customers, will harmonize the taxes as well as will help in reducing business cost.

BACKGROUND OF HOTEL INDUSTRY

India's hotel industry has experienced modest growth over the past few years and has the potential to grow significantly in the next years. Travellers from all over the world have been drawn to the country due to its diverse and rich culture. India has gained recognition as a place to go on a spiritual vacation. India is demonstrating consistent improvement, climbing from position 65 in 2013 to position 34 in 2023 in the World Economic Forum's index measuring the competitiveness of travel and tourism. The combined hospitality and tourist sector has been expanding at a strong rate, contributing 7.5% of the

GDP. India ranks internationally in the greenfield FDI ranking and is a member of the top 100 clubs for ease of doing business (EoDB). In order to improve the cruise tourism and hospitality sector, the government of India has chosen Chennai, Goa, Kochi, Mangalore, and Mumbai ports for development. India's hospitality industry can be broadly divided into the lodging, food and beverage, transportation, and recreation sectors. It contains a number of subcategories, including lodging, dining, and the entertainment sector, which includes theatre, amusement parks, and circuses, among others. One of the areas that saw changes after the GST was implemented was the Indian hospitality.

SERVICES PROVIDED BY HOTELS IN INDIA

Accommodation services

- Types of Rooms: Hotels offer different types of rooms, such as standard rooms, deluxe rooms, suites, and serviced apartments. The accommodation options range from budget to luxury, depending on the hotel's category.
- In-room Amenities: Depending on the hotel's standard, guests may enjoy amenities like air conditioning, free Wi-Fi, television, mini-bars, electronic safes, and premium bedding.
- Housekeeping: Hotels offer daily housekeeping services to maintain cleanliness, change linens, and provide toiletries.

Serving Food in Hotel Restaurant and in hotel room

- Restaurants: Hotels typically have one or more in-house restaurants serving a variety of cuisines, including local Indian dishes, continental, and international options.
- Room Service: Many hotels provide room service, where guests can order food and beverages to be delivered to their room, offering convenience and privacy.
- Special Dining Experiences: Luxury hotels may offer themed dining, rooftop restaurants, or private dining experiences for special occasions.

Cab services for tourist

- Airport Transfers: Many hotels offer pick-up and drop-off services from airports, ensuring a hassle-free arrival and departure experience.
- Tourist Transportation: Hotels may arrange taxis or chauffeur-driven cars for city tours, sightseeing, or business purposes. Some luxury hotels also offer limousine services.

- **Car Rentals:** Many hotels partner with car rental agencies or offer on-site rental services for guests who wish to drive themselves.

Foreign currency exchange service

- For international travelers, hotels often provide foreign exchange services to convert foreign currency to Indian rupees and vice versa. This service is typically offered at the front desk and ensures competitive exchange rates without the need for guests to visit banks or currency exchange kiosks.

Renting out premises for events

- **Conference and Banquet Halls:** Hotels often provide event spaces, including meeting rooms, banquet halls, and conference rooms, which can be rented for corporate events, weddings, or social gatherings.
- **Event Planning Services:** Many hotels offer event management services, including organizing weddings, conferences, exhibitions, and parties. They provide assistance with catering, décor, and other arrangements.
- **Outdoor Event Spaces:** Some hotels offer outdoor venues, such as lawns or poolside areas, for hosting large gatherings and celebrations.

Food catering services

- Hotels often provide catering services for events such as weddings, conferences, and parties held on or off the premises. They may offer customized menus, serving staff, and other logistical support for food and beverage requirements.

Laundry services

- **On-site Laundry:** Most hotels offer laundry and dry-cleaning services to ensure that guests have access to clean clothes during their stay. Services include washing, ironing, and dry-cleaning.
- **Express Laundry:** For business travelers or guests on tight schedules, many hotels provide express or same-day laundry services

Business support services

- **Business Centers:** Hotels catering to corporate travelers often have a business center equipped with computers, printers, fax machines, and photocopiers.

- **Meeting Rooms:** In addition to large conference rooms, hotels often provide smaller meeting rooms for more intimate business discussions.
- **High-speed Internet:** Most hotels offer high-speed Wi-Fi or wired internet access to support business activities.
- **Secretarial Services:** Some hotels offer secretarial services, such as document typing, printing, translation, and administrative support.

Personal Grooming & wellness services

- **Salons and Barber Services:** Many high-end hotels offer on-site salons where guests can enjoy haircuts, styling, and grooming.
- **Spa and Wellness Centers:** Hotels often feature wellness centers that provide treatments such as massages, facials, and body therapies to promote relaxation and rejuvenation.
- **Fitness Centers:** Modern hotels typically include well-equipped gyms or fitness centers, with personal trainers, yoga instructors, and fitness classes available.
- **Swimming Pools & Saunas:** Many hotels offer swimming pools, saunas, and steam rooms to provide guests with recreational and wellness options.

Importance of tourism and hospitality sector for emerging economy like India.

- Tourism in India accounts for 7.5% of the GDP and is the third largest foreign exchange earner for the country
- Sector's total contribution to GDP has increased to US\$ 136.2 billion by the end of 2016 and is expected to further grow to US\$ 280.5 billion by 2026
- The industry is expected to generate 13.45 million jobs across sub-segments such as Restaurants (10.49 million jobs), Hotels (2.3 million jobs) and Travel Agents/ Tour Operators (0.66 million)

Hospitality in Pre-GST Context

Before the implementation of the Goods and Services Tax (GST) in India, the hospitality and tourism sector faced a complex and burdensome tax regime characterized by multiple taxes, cascading effects, and challenges related to bundled services.

Multiple Taxes

Value Added Tax (VAT): VAT was levied on the sale of goods and services within a state. The rates varied across states, leading to inconsistencies and complexities for businesses operating across regions.

Service Tax: A central tax imposed on the provision of services, service tax rates also varied depending on the nature of the service.

Luxury Tax: Some states imposed additional luxury taxes on certain hospitality services, such as high-end accommodations and premium dining.

Bundled Services

In the hospitality and tourism sector, services are often bundled together, making it difficult to determine the exact taxable value of each individual service. For example, a hotel stay might include accommodation, meals, and other amenities, all of which could be subject to different taxes.

Cascading Effect of Tax

The cascading effect of taxes was another major issue in the pre-GST era. This occurred when a tax was levied on the output of a business, which was then used as input by another business. The second business would then pay tax on the value of the input, leading to multiple layers of taxation on the same value.

For instance, a hotel might purchase food items from a supplier who has already paid VAT on the goods. The hotel would then pay VAT on the food items when it serves them to guests. This double taxation increased the cost of doing business and reduced profitability.

The complex tax regime in the pre-GST era posed significant challenges for the hospitality and tourism industry. Businesses had to navigate multiple tax laws, deal with inconsistencies in tax rates, and contend with the cascading effect of taxes. This made it difficult for them to manage their tax liabilities and focus on their core operations.

EXAMPLE

A Tourist Traveling from Mumbai to Goa

A tourist travels from Mumbai to Goa for a vacation. They stay at a hotel in Goa, dine at local restaurants, and take a boat cruise. The taxes applicable in this scenario could include:

VAT: On the hotel accommodation, restaurant meals, and boat cruise services in Goa

Service Tax: On the boat cruise services (if applicable)

Entertainment Tax: If applicable, on the boat cruise

Hospitality– under GST

Standardized Rates

- **Uniformity:** GST has introduced a standardized rate structure across the country, eliminating the complexities of dealing with multiple state-level taxes.
- **Reduced Compliance Burden:** Businesses no longer need to comply with different tax regulations in each state, reducing their administrative burden.
- **Improved Predictability:** With standardized rates, businesses can better plan their operations and financial strategies.

Easy & Better Utilization of Input Tax Credit

- **Input Tax Credit (ITC):** GST allows businesses to claim ITC on the taxes paid on inputs used in the production of taxable goods or services.
- **Reduced Cost of Business:** ITC helps reduce the effective tax burden on businesses, making them more competitive.
- **Improved Cash Flow:** ITC can improve cash flow by reducing the amount of tax payable.

Better Growth

- **Reduced Costs:** The simplified tax regime and ITC benefits have reduced the cost of doing business for the hospitality and tourism sector.
- **Increased Competitiveness:** Lower costs have made businesses more competitive, leading to better growth prospects.
- **Attracting Investments:** A simplified tax regime can attract more investments into the sector, further driving growth.

Clarity for Consumers

- **Transparent Pricing:** GST has made pricing more transparent for consumers, as the tax is included in the final bill.
- **Reduced Confusion:** Consumers no longer need to worry about multiple taxes and their impact on the final price.

Administrative Ease

- Simplified Returns: GST has simplified the process of filing tax returns, reducing the administrative burden on businesses.
- Online Filing: Many tax-related processes can now be completed online, further streamlining operations.
- Reduced Compliance Costs: The simplified tax regime has reduced the overall cost of compliance for businesses.

Example : A Hotel Chain

- Standardized Rates: A hotel chain can now apply a uniform rate across all its properties in India, regardless of the state.
- ITC Benefits: The hotel can claim ITC on purchases of food items, cleaning supplies, and other inputs used in its operations.
- Reduced Costs: Lower effective tax rates can lead to increased profitability and reinvestment in the business.

TAX STRUCTURE IN HOSPITALITY

For Hotel Accommodation:

Restaurant Type	Service Tax	VAT	Serving/ Not Serving Alcohol	GST Rate
Non –Air Conditioned	6% (60% Abatement, pay only 40%)	14.50%	Not Serving Alcohol	5%
Air Conditioned			Serving Alcohol	5%
			Not Serving Alcohol	5%
Partly AC & Partly Non-AC			Serving Alcohol	5%
			Not Serving Alcohol	5%
5 Star Restaurant			Serving Alcohol	5%
			Not Serving Alcohol	5%

Other Services in Hotels

Services	Tax Rate	ITC
Foreign currency exchange service	18%	Full ITC
Renting out premises for events	18%	Full ITC
Laundry Services	18%	Full ITC
Business Support Services	18%	Full ITC
Personal Grooming and Wellness Services	18%	Full ITC

Input Tax Credit

One of the biggest benefits of the GST is the input tax credit. When hotels buy supplies and services, they

Pre-GST Tax Structure in Hospitality (Before July 1, 2017):

S.No.	TAX	RATES
1	Service Tax	6% - 15%
2	Luxury Tax	Varying from 5% to 12%
3	VAT	12% to 14.5% (on food and beverages)
4	CESS	1%

The total tax burden, depending on state and hotel category, could go up to around 20%-25%.

Post-GST Tax Structure in Hospitality

S.No	Transaction value	GST Rates	ITC
1	Less Than Rs.1000	NIL	No ITC
2	Between Rs.1000-Rs.7500	12%	Full ITC
3	More Than Rs.7500	18%	Full ITC

(Initially GST for transaction value above 7500 was 28% but in 2019 it got reformed to 18%)

For Restaurants

pay GST. With the ITC, hotels can subtract the taxes that paid from GST liability.

Input tax credit is available:

- In case of all purchases of materials for day to day operations of the Hotel.
- In case of purchase of capital goods like furniture & fixtures etc., cutlery, bed linen, utensils etc. Plant & Machinery

Input tax credit is not available:

- For purchase of Liquor, input tax credit not available.
- New investment in building (immovable property) self-constructions.

LITERATURE REVIEW

- Dr. Meenu Baliyan Punjika Rathi

For hotels, no GST are to be charged for room rates priced lower than INR 1,000. However, room rates higher than INR 5,000 get a 28% tax rate. For 5-star hotel restaurants, the rate is 18% for those that serve alcohol and 12% for those that don't. Smaller hotels and restaurants are only charged 5% if their annual turnover does not exceed INR 50 Lakh.

- Dr. M. Subha Priya and Dr. M. Premkumar

The study investigates the impact of the Goods and Services Tax (GST) on Chennai's hotel industry. Findings suggest a positive influence of GST on the industry, potentially leading to:

- Increased customer base due to lower tax burden on consumers.
- Enhanced government revenue collection through a streamlined tax system.

- Aswathy Krishna (2018)

Studied All states have their own taxes thanks to the GST's consistent tax rate structure, which was implemented before the restaurant industry was burdened with several tax collecting methods. This tax dualism is no longer present. Additionally, it aids in bettering money management. Hopefully, GST would assist in resolving the issue with financial transactions and assist the hotel industry in maintaining steady business.

- Abraham and Mathew

Examined the GST impact in Kerala on hotel business. The main aim of the study is to examine the views received from hoteliers on the GST execution. A questionnaire was designed and administered to 60 hotels with restaurants across the district of Kottayam

for the study using convenience sampling technique. Researchers concluded that the large number of hotel owners have articulated trust in the process, despite the fact that a large number of hotels have sustained added expenses in migrating to the GST system, because they believe that GST will be helpful in the future.

ANALYSIS

Comparison Pre GST & Post GST (with tariff Between Rs.1000- Rs.7500 and no hotel restaurant facility)

PARTICULARS	AMOUNT	AMOUNT
Basic Room	Before GST	After GST
Room Tarrif	2700	2700
Luxury Tax (say@10%)	270	-
Service Tax @9%	243	-
GST @12%	-	324
Total Bill	3213	3024

INTERPRETATION- There is reduction in amount of payment post GST that the customers will have to pay for a basic room stay.

COMPARISON OF PRE GST AND POST GST (with tariff Between Rs.1000- Rs.7500 with hotel restaurant facility)

PARTICULARS	AMOUNT	AMOUNT
Room with complementary Breakfast	Before GST	After GST
Room Tarrif	2200	2200
Complementary Breakfast	500	500
Luxury Tax (say@10%)	220	-
Service Tax @9%	198	-
VAT @14% (on food)	73	-
GST @12%	-	324
Total Bill	3191	3024

INTERPRETATION- There is reduction in amount of payment post GST that the customers will have to pay for a room stay with complementary restaurant service.

COMPARISON OF PRE GST AND POST GST with tariff above 7500 with hotel restaurant facility

PARTICULARS	AMOUNT	AMOUNT
Room with complementary Breakfast	Before GST	After GST
Room Tarrif	8000	8000
Complementary Breakfast	2500	2500
Luxury Tax (say@10%)	800	-
Service Tax @9%	720	-
VAT @14% (on food)	363	-
GST @18%	-	1890
Total Bill	12383	12390

INTERPRETATION- Hotels with room tariff per night exceeding Rs. 7500 will have to pay the GST at 18% which is coming to be higher than the amount required to be paid before GST.

Therefore hospitality sector has experienced both positive and negative impacts of GST. The simplification of the tax structure has benefited their operations, but the higher tax rates on luxury services have posed challenges.

While GST has brought about significant changes in the hospitality industry, the overall impact has been a mix of benefits and challenges. The industry continues to adapt to the new tax regime, aiming to leverage the advantages while mitigating the drawbacks.

GDP Contribution by Hospitality Sector due to GST

The introduction of the Goods and Services Tax (GST) India has significantly boosted the growth of the hospitality sector. This is evident in the projected increase in its contribution to India's GDP from Rs.15.24 lakh crore in 2017 to Rs. 32.05 lakh crore by 2028. Several factors have contributed to this remarkable growth:

1. Simplified Tax Structure: GST replaced a complex web of taxes with a single, unified levy, reducing the administrative burden on businesses. This has encouraged more businesses to formalize their

operations, leading to better tax compliance and higher revenue collection.

2. Input Tax Credit (ITC): Businesses can now claim ITC for the taxes paid on inputs, significantly reducing their operating costs. This has allowed hotels and restaurants to offer more competitive pricing, improve profitability, and reinvest savings into business growth.

3. Increased Tourism: GST has made travel and accommodation more affordable, attracting more tourists both domestically and internationally. This has directly contributed to the growth of the hospitality sector, as higher occupancy rates and increased spending lead to higher revenue.

4. Investment in Infrastructure: The positive impact of GST has attracted significant investment in the hospitality sector. New hotels, resorts, and other infrastructure projects are being developed to cater to the growing demand, creating jobs and stimulating economic activity in related industries.

5. Business Travel: GST has made business travel more cost-effective by allowing companies to claim ITC on travel expenses. This has led to an increase in corporate travel, which is a significant revenue stream for the hospitality sector.

6. Digital Transformation: GST has driven the adoption of digital technologies in the hospitality sector. Businesses are investing in digital solutions to comply with GST requirements, improving operational efficiency and customer service.

Therefore, GST has played a crucial role in the growth of India's hospitality sector. By simplifying the tax structure, providing ITC benefits, boosting tourism, attracting investment, and driving digital transformation, GST has created a more favourable environment for businesses in this sector. As the sector continues to expand, it will make a significant contribution to India's economic development.

PROS AND CONS OF GST ON HOTEL INDUSTRY

Pros

- GST implementation leads to ease of administration and reduces the workload of the hotel management.
- GST reduces taxes on hotel bills which lead to attraction of more customers by which revenue increases.

- Due to transparency in GST system, bill structure is easy to understand for customers as well as for hoteliers.
- The new structure makes tax avoidance and tax evasion difficult that leads to increase in government revenue.

Cons

- Initially due to introduction of new tax system, there was a great ambiguity in accepting the new system by hotel business.
- The GST slab rate is high for luxury hotels as their charges are more comparatively.
- Small hotels need skilled assistants to work on GST so they have to bear extra charges for hiring new assistant or to provide training to the old one.

CONCLUSION

Under the GST regime, both customers as well as restaurant owners have reason to express joy. Customers may be pleased about the reduction in the amount of payments they will be paying now. On the other hand, hotel and restaurant owners can celebrate because they can now claim input tax credits easily. But hotels with room tariff per night exceeding Rs. 7500 will feel the pain of GST as they may see fall in the number of tourists footing into their property, since they will have to pay the GST at 18% which they think is very high.

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