

Impact of GST on Hotel and Restaurant Industry

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Abstract:

Goods & Services Tax is a comprehensive, multi-stage, destination-based tax on Goods & services that will be levied on every value addition. GST is recovered from the final consumer. All sorts of Indirect taxes like Excise duty, Service Tax, Octroi, Entry Tax, Entertainment Tax, Luxury Tax are merged under GST except a few taxes such as Basic customs duty, anti dumping duty, safeguard duty, property tax, stamp duty etc.. GST system has come into the force on 1st July 2017 with the motto of 'one nation one tax' in India. And which is going to witness its impact on various sectors of the economy. This revolutionary tax system is dual structure model and avoids cascading effects. GST will affect all industries, which includes restaurant industry as well. The GST is going to affect the suppliers and service providers as well as the consumers of the Restaurant Industry. In the earlier tax system Hotel industry was attracting the taxes such as VAT, Service Tax, Luxury tax, CST, Central excise etc.. But all these taxes are subsumed in to a single tax under GST. Therefore there is a necessity to study the impact of GST on Hotel industry as well as on the consumers of this industry. This paper highlights the changes reflected in the hotel and restaurant industry due to transformation of old VAT and other tax systems in to the new GST system. The study is conducted in Dharwad District of Karnataka state. As this coastal district is the famous tourist and commercial centre, more restaurants and hotels are emerging in this area.

Key words: GST, Hotel, Restaurant, COT, Input tax credit

1.2: Introduction:

Indian restaurant industry has evolved and grown significantly over the past two decades and continues to grow at a steady pace. According to the report of National Restaurant Association of India the size of Indian food service industry is Rs 4,23,865 crore in 2018-19 and is expected to grow at a CAGR (Cumulative Annual Growth Rate) of 9 per cent to reach Rs 5,99,782 crore by 2022-23.. This can be attributed to the changing demographics, increase in disposable incomes, increasing women workforce, urbanization and growth of organized retail market. India has a robust hotel industry that contributes greatly to tourism and accounts for around 7.5% of the country's GDP.

The nature of commercial activities carried out in hotels and restaurants come under the definition of services and are, thus, liable to taxation. And now the revolutionary tax system viz. GST is the main criteria, considerably influencing all the industries including restaurant and hotel industry. This GST is going to affect suppliers and service providers, as well as the consumers of the restaurant industry. This paper throws light on the changes reflected in this industry due to changing pace from VAT and other taxes to GST.

OBJECTIVES OF THE STUDY:

- To study the GST provisions applicable to Hotel and restaurant industry.
- To study the impact of GST on pricing policies of the industry in specific to restaurants, hotels, Bar & Restaurants, Lodges.
- To understand the impact of GST on consumers of hotel industry.
- To study the impact of GST on the growth of the industry.

Methodology:

This research paper is prepared by collecting data both primary and secondary sources. The primary data is obtained by conducting a survey in Dharwad district. The information is collected through questionnaires from 25 hotels and restaurants (star hotels and common) in twin cities of Karnataka (Hubli-Dharwad) . The information is also collected from practicing chartered accountants in the vicinity. Secondary data is collected from books, journals, magazines, newspapers, websources etc.

GST provisions on hotel and restaurant industry

On 1st July 2017 GST council finalized 4 tier tax structures where taxes are levied 5%, 12% 18% and 28%. It agreed on different tax slabs for restaurants depending on their turnover and whether they are AC or Non-AC. The rates were ranging from 5% to 28%. But at the later stage GST council lowered the tax rates to a uniform rate of 5% excluding star hotels, which is 18%.

- Type of registration: As per the new GST law business units less than annual aggregate turnover of 20 lakh need not register under GST. Hotels with annual turnover upto Rs. 1 crore can opt for composition scheme (Notification No. 46/2017-Central Tax) and remaining under regular scheme.
- Tax rate: In Notification No. 46/2017-Central Tax (Rate) dated 14-11-2017, uniform 5% tax was introduced on all restaurants without the distinction of AC or non-AC. Starred hotels which charge 7,500 or more per day room tariff will be levied 18% GST. The hotels under composition scheme always attract GST of 5% which was 4% before under Karnataka VAT. Liquor, however, is kept outside the purview of GST and attracts state levies like VAT and central excise. Therefore Bars are not witnessing any difference in tax rates.

Type of Restaurants	GST Rate
All restaurants	5% without ITC
Restaurants within hotels (room tariff <7,500)	5% without ITC
Restaurants within hotels (room tariff >7,500)	18% with ITC
Outdoor catering	18% with ITC

- Input tax credit: Restaurants are not passing on any benefit of input tax credit to consumers under GST. In the light of the government's decision to lower the tax rate to 5%, the provision of input tax credit has been withdrawn. The hotels under composition scheme are not allowed to get ITC benefit. But the starred hotels attracting 18% GST are still continue to get the benefit of ITC.
- Service charge and service tax: Under the old tax regime VAT was charged on the food component and service tax was charged at 15% on 40% of the restaurant bill amount. But now under GST there is no service tax, instead GST is charged on total amount of the bill at a normal rate of 5% or 18% as the case may be.
- Taxes on Alcoholic liquors for human consumption: GST is not applicable on alcoholic liquors since they are still under central excise and State VAT. (Bar and Restaurant)

Findings of the study :

Table showing type of business surveyed (no of units)

Type of Registration	Restaurants	Bar & Restaurants	Lodging Only	Lodging and Restaurants	Total
COT	08	01	03	02	14
Regular	02	05	01	03	11
Total	10	06	04	05	25

Table showing the rate of tax applicable

Type of Registration	Restaurants	Bar & Restaurants	Lodging Only	Lodging and Restaurants	Total
COT 5%	08	01	03	02	14
Regular under 5%	02	05	01	02	10
Regular under 18%	-	-	-	01	01
Total	10	6	4	5	25

Analysis of the survey

1. Change in tax Rate: The hotels registered under composition scheme are witnessing a hike from 4% to 5% rate of tax. This will cause additional burden of 1% to the restaurant owners. But under regular scheme it was 12% and now it has been changed to 5% or 18% based on the room tariffs of the hotels.
2. Menu prices and profit margin: The survey shows that most of the restaurant owners increased the menu prices. They opine that under old system menu price was less and tax rate was more. But now due to fall in the rate of taxes the owners of restaurant could have inbuilt increase in menu prices as there will not be any increase in the total bill amount. The starred Restaurant owners opine that menu prices cannot be reduced because the benefit of reduction of tax rates will be offset by the loss due to withdrawal of input tax credit. Because the input tax credit accounts for 3%-4% profit of the restaurants

This could be better explained through the following example In the

	Under Existing System	Under GST
Menu Price	200	213
Add : VAT @ 12% on 200	24	----
Add: GST @ 5% on 213	----	11
Total amount of the bill	224	224

above example total amount of bill remains constant due to inbuilt increase in menu price from 200 to 213. This will bring additional profit of Rs. 13 to restaurant owners without resulting any additional burden on the consumers. They also justify increasing menu prices due to loss of input tax credit.

In case of lodging it is not going to make any differentiation in the price list and profit margin. In case of COT menu price will change due to increase of tax rate by 1% but as the supplier has to bear the tax it does not make any difference in menu price. But they could increase the menu price to recover the loss of 1%. But there will not be any difference in profit margin.

3. Input Tax Credit: Most of the inputs used in this industry like pulses, vegetables, milk, fish and chicken were exempt under earlier laws and now also it continues to be same. As these materials form major cost component of the industry there is no remarkable difference in the provisions of ITC.

4. Sales and growth of the industry: Most of the restaurant owners in the Dharwad district believed that GST is a positive decision for the industry. But as the input tax credit has gone away, it does not decrease the cost considerably. If the hotel owners wish the menu prices can be made more competitive and may expect more customers to come in and the hotel industry to grow in general. Particularly A restaurants are expected to grow as the tax rates are reduced from 12 to 5%.

5. Consumer satisfaction: The 12%-18% GST earlier had led to a hike in cost of dining for consumers. The revision in GST rates for restaurants is positive as it would bring down dining out cost. The lower and middle income group feels happy for the reason of lowered tax rates in AC restaurants and of the opinion that the prices are also reduced. Particularly in tourists places the menu prices can be more competitive, bringing in advantage to the customers. So customers will be satisfied if the prices are reduced, if not there will not be difference in customer satisfaction level.

6. Promotional strategies: For the purpose of assessing GST liability, transaction value is calculated as per different valuation rules prescribed for various circumstances. If free samples or discount offers are given as the part of promotional strategy, then Input tax credit is availed proportionately. ITC is not provided on that portion of the cost of goods distributed as free samples. This may either discourage the provision of seasonal offers by the restaurant owners or may tend them to recover the cost of free samples by adding to the cost of products actually sold for consideration.

7. Filing of returns: Hotels and Restaurants under the Composition Scheme are required to file GSTR-4 for declaring the outward supplies made by them and to pay taxes on the same. This GSTR-4 will be required to file quarterly. Hotels and Restaurants under the Regular scheme presently have two options of filing returns.

Either they can opt for Monthly filing or quarterly filing. But both Monthly/quarterly are required to file GSTR-3B on monthly basis itself. Only the deference is those who have opted Monthly, need to file GSTR-1 on monthly basis declaring the outward supplies made and those who have opted quarterly are required to file GSTR-1 on quarterly basis. Presently they are not required to file GSTR-2 and GSTR-3 till March 2018 and it is now again deferred till June 2018 by the GST Council in its 26th Meeting held on 10-03-2018. All the above said returns are to be filed in GSTN Portal in online mode. But there are various technical glitches but the problem is temporary, which is expected to be resolved soon.

Conclusion:

The businesses are still trying to understand the changes required in their current systems to accommodate the new compliance mode of GST. On this note, it is attempt to focus the impact analysis on the restaurant and food industry. Anyhow GST will bring reasons to rejoice for both consumers and restaurant owners under the new regime and we will have more reason to explore the new food joints in our neighborhood and pamper our taste buds. It is a boom to Hotels - AC and Non- AC restaurants. As the result the industry may grow and lead to new entrepreneurs to start up this business.

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