



OVERVIEW OF GST AND IMPACT OF GST ON HOTEL INDUSTRY

Surendar Paulpandi Nadar

Abstract

GST is a path breaking indirect tax reform which attempts to create a common national market. GST has subsumed multiple indirect taxes like excise duty, VAT, CST, luxury tax etc. GST is a value added tax levied on manufacture, sale and consumption of goods and services. GST in India comprises of CGST, SGST, UTGST & IGST. Common GST Electronic Portal is a website managed by Goods and Services Network (GSTN). GST Council is the governing body of GST and all the decisions are taken by them. The GST council makes changes in rates as per the Scenarios. The Hotel Industry is one of the emerging sector and major contributor in Indian economy. The GST has made impact in many of the field including Hotel Industry in India. The GST Council had made recent changes in rates to encourage hotel industry and tourism.

Keywords: Luxury tax, CGST, SGST, UTGST, GSTN, GST Council, Hotel Industry.

Introduction

GST

The introduction of Goods and Services Tax(GST) would be a very important step in the field of Indirect tax reforms in India. By emerging a large number of Central and State Taxes into a single tax, it would mitigate cascading or double taxation in major way and lead to “one nation one tax” principle. GST is a value added tax levied on manufacture, sale and consumption of goods and services. GST offers comprehensive and continuous chain of tax credit from the producer’s point/service provider’s point upto the retailer’s level/consumer’s level thereby taxing only the value added at each stage of supply chain.

Types:

1. The GST to be levied by the Centre on Intra-State supply of goods and/or services would be called the Central GST (CGST)
2. The GST to be levied by the State/ Union Territory on Intra-State supply of goods and/or services would be called the State GST (SGST)/ Union Territory GST (UTGST)
3. The GST to be levied by on Inter-State supply of goods and/or services would be called the Integrated GST (IGST)

GST Common Portal:

Common GST Electronic Portal is a website managed by Goods and services Network (GSTN). It has been set by the Government to establish a uniform interface for the tax payer, and a common and shared IT infrastructure between the central and state. The system consist of all the stakeholders starting from the taxpayers, to the tax professional, to tax officials to GST portal to bank to accounting authorities.

HOTEL INDUSTRY

The Indian Hospitality industry has emerged one of the key industries driving the growth of service sector and thereby, the Indian Economy.

According to India Brand Equity Foundation(IBEF), the Tourism & Hospitality sector's direct contribution to GDP surged by 23.6% in 2017. Also, tourism in India accounts for 9.4% of the GDP & is the 3rd Largest foreign exchange earner for the country and ranked 7th in terms of tourism total contribution to GDP in 2017. At the close of 2018, the country saw macroeconomic stability owing to a decline in inflation, current account deficit etc. The Union Budget FY19 had identified some major pillars that will support economic growth for the country that includes tax reforms, fiscal discipline, investment in infrastructure. This is said to have translated into a overall pick up in economic activity, thereby having a positive impact on the demand for hotels industry in the country.

Service provided by the Hospitality sector are as follows:

- 1 Room service
- 2 Laundry services
- 3 Fitness Centre
- 4 Full kitchens
- 5 Wi-Fi Availability. Etc

Objective

- 1 To study the concept of GST.
- 2 To study the impact of GST in Hotel Industry.
- 3 To study the recent changes in GST rates in Hotel Industry.

Framework of GST

GST Council

Article 279A of the constitution empowers the president to constitute a joint forum of the centre and states namely, Goods and Services Tax Council.

Composition of GST Council

- 1 The Union Finance Minister is the chairman of this Council.
- 2 The ministers in charge of finance/taxation or any minister nominated by each of the states & UTs with Legislatures are its members.
- 3 The Union Minister of State in charge of Revenue or finance is also its member.

Tax system before GST

The Hospitality industry, like every other sector in the Indian Economy, was liable to pay multiple taxes (VAT, Luxury tax and service tax) under the previous VAT regime.

- 1 A hotel where the room tariff exceeded Rs. 1000/- was liable for service tax at 15 percent.
- 2 An abatement of 40% was allowed on the tariff value, thus bringing the effective rate of service tax down to 9%. The value added tax and luxury tax, would apply on top of this.
- 3 There was 60% abatement which meant that the service tax was charged at an effective rate of 6%, apart from VAT.

Under the GST Regime.

Under the goods and service tax, the hospitality sector stands to reap the benefits of standardized and uniform tax rates, and easy and better utilization of input tax credit.

The GST rates for Hotel based on Room Tariff (up to 30.09.2019)

- 1 Tariff of room per night up to Rs. 1,000 – No tax liability
- 2 Tariff more than Rs 1,000 up to 2,499 - 12% GST.
- 3 Tariff more than Rs.2,500 up to 7,499- 18% GST
- 4 Tariff more than Rs.7,500- 28% GST

GST Council in the 37th meeting held on 20th September, 2019 at Goa inter-alia, decided to lower GST rates on hotel tariff

The GST rates for Hotel based on Room Tariff (with effect from 01.10.2019)

- 1 Tariff of room per night up to Rs. 1,000 - No tax liability.
- 2 Tariff more than Rs. 1,001 up to 7,500- 12% GST.
- 3 Tariff more than Rs. 7,500 -18% GST.

Note: This would ideally improve the revenue for the government, and there are many positive impacts to this new tax regime which would help the industry's growth in the long run. For instance, complementary food (like breakfast) was taxed separately under VAT, but now it will be taxed under GST as a bundled service.

Case A: Hotel rooms with complementary Breakfast

Particulars	Before GST Rs.	After GST Rs.
Room tariff	2,200	2,200
Complimentary Breakfast	500	500
Luxury charge on stay (10% as per Maharashtra)	220	220
Service tax@9%	198	
VAT @14.5% on food	73	
GST @12%		324
Total Bill	3191	3024

Impact of GST

Hotel sector shall be impacted both positively and negatively under the GST regime.

Positive

- 1 Uniformity in Taxes.

The multiple taxes would be replaced by one single tax, the rate of which is likely to be between 12%– 18%. The sector may benefit in the form of lower tax rates which should help in attracting more tourist in India.

- 2 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 bill 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. (As per the case above)

- 3 Clarity for the consumers.

© Association of Academic Researchers and Faculties (AARF)

A Monthly Double-Blind Peer Reviewed Refereed Open Access International e-Journal - Included in the International Serial Directories.

It was sometimes difficult to differentiate between a Value Added Tax and an Entertainment Tax for the common man. However, under the regime of GST customers will see only a single charge on their bill and it would give them a clear picture of the Tax they are paying.

4 Availability of Input Tax Credit.

The tourism and Hospitality industry will find it easier to claim and avail input tax credit (ITC) and will get full ITC on their inputs. Before GST, the tax paid on inputs (raw edibles for food, cleaning supplies etc.) could not be adjusted against the output without any complications. However, this will become easier in the GST regime.

Negative.

1 Multiple Registrations.

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 needs to be examined on a case by case basis.

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.

3 Liquor not included.

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

4 Increased technological burden

When the service tax was first introduced, there were a lot of mix ups. GST, thankfully has very clear guidelines on how each industry needs to manage their accounts and file returns but it will require businesses to become technologically adept, increasing the technological burden and cost for compliance.

5 Lack of parity with Asian Counterparts.

As India becomes an even bigger player in the global hospitality and tourism industry, we need services to be at par with global rates. Our Asian neighbors such as Japan and Singapore have very low rates for their hospitality sector (8% and 7% resp.) which is an

important reason for them ranking high on tourist wish lists. India is a global tourism hotspot, but it still loses out on the backpacker crowd due to these high rates.

Conclusion:

GST is a mixed bag of better and easier rules and regulations, and increased cost and compliances. GST is going to be an efficient and harmonized destination based tax system and will remove the problems faced by the sector leading to cost optimization and a free flow of transactions. 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 tax credit which in turn benefits the end user in terms of affordability.

References

- 1 Anushuya, Karam Pal Narwal “Application of CGE Models in GST: A Literature Review” International Journal of Economic Practices and Theories, Vol. 4, No. 6, 2014, e-ISSN 2247–7225 www.ijept.org
- 2 Aswathy Krishna and Divya. M.S, Aashish C.I “A study on GST and its effect on hotel industry” IOSR Journal of Business and Management (IOSR-JBM) e-ISSN: 2278-487X, p-ISSN: 2319-7668 PP 04-05 www.iosrjournals.org
- 3 Priyanshu Sharma*, Dr Manoj Sain “A Review of Goods and Services Tax (GST): Impact on Indian Stock exchanges and various stock Sectors.” International Journal of Scientific Research and Management (IJSRM) ||Volume||5||Issue||11||Pages||7418-7422||2017|| Website: www.ijssrm.in ISSN (e): 2321-3418
- 4 Sabari Nath T V" Implementation of Goods & Service Tax (Gst) in India Emerging Opportunities & Challenges” Quest Journals Journal of Research in Business and Management, vol. 07, no. 01, 2019, pp 58-60.
- 5 www.cleartax.in
- 6 www.quora.com