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Education and Society | Vol-46, Issue-3, No.-23, April - June: 2023

INDEX

19	IMPACT OF TRANSIT ADVERTISING ON PURCHASE DECISION OF A NEWLY LAUNCHED
20	CONSUMER SATISFACTION SURVEY ON PERCEIVED AND EXPECTED SERVICE QUALITY OF ZOMATO FOOD DELIVERY SERVICE IN NAVI MUMBAI REGION
21	OVERVIEW OF DIGITALISATION IN THE PAYMENT SYSTEM OF FINANCIAL MARKET IN INDIA
22	PESTLE ANALYSIS A STUDY WITH SPECIAL REFERENCE TO RAJESHREE CEMENT INDUSTRY, MALKHED
23	CONTAGIOUS EFFECTS OF MARKET VOLATILITY BETWEEN THE FOREX AND INDIAN STOCK MARKETS
24	WEALTH CREATION AND PRESERVATION: EXAMINING THE ROLE OF LIFE INSURANCE
25	UNLEARNING THE LEARNT *GENDER AND ITS ROLES* IN CHIMAMANDA NGOZI ADICHIE'S 'WE SHOULD ALL BE FEMINISTS."
26	NANOTECHNOLOGY APPLICATIONS IN SCIENCE AND ENGINEERING: FOOD AND AGRICULTURE

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GST AND HOSPITALITY: IT'S IMPACT

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Abstract:
Every value addition will be subject to the "Products and Services Tax," a comprehensive, multi-stage, destination-based tax on goods and services. The ultimate consumer is where GST is recouped. Except for a few taxes like basic customs duty, anti-dumping duty, safeguard duty, property tax, and stamp duty, etc., all indirect taxes including excise duty, service tax, octroi, entry tax, entertainment tax, and luxury tax are combined under GST. With the motto "one country, one tax," the GST system comes into force in India on July 1st, 2017, and would have an impact on a variety of economic sectors. The customers of the restaurant industry as well as the suppliers and service providers would be impacted by the GST. The hotel business was subject to taxes including VAT, Service Tax, Luxury Tax, CST, Central Excise, etc. under the previous tax regime. But under GST, all of these levies are combined into a single tax. This essay focuses on the adjustments made by the transition from the previous VAT and other tax systems to the new GST system in the hotel and restaurant business. The study is carried out in the Karnataka state's Vijayanagara District.
Keywords: GST, Hospitality, Hotel, Restaurant, Input Tax Credit.

I INTRODUCTION

The Indian hotel industry has seen significant development and expansion over the past 20 years and has kept up a steady growth rate. According to a survey by the National Restaurant Association of India, the size of the Indian food service industry is now projected to be Rs. 2,47,680 crore, and by 2018 it is anticipated to grow to Rs. 4,08,040 crore at a rate of 11%. The spread of organised retail, urbanisation, changing demographics, increasing disposable incomes, an increase in the number of working women, and growing disposable incomes all contribute to this. India has a robust hotel industry that contributes significantly to tourism and accounts for around 7.5% of the country's GDP.

The type of business operations performed in hotels and restaurants falls under the concept of services and is thus subject to taxation. Today, the innovative GST tax system is the key factor that has a significant impact on all businesses, including the restaurant and hotel sectors.

Suppliers, service providers, and restaurant sector patrons would all be impacted by this GST. This report sheds light on the adjustments made by this industry as a result of the quick transition from VAT and other taxes to GST.

II OBJECTIVES OF THE STUDY:

1. To comprehend how the GST would affect hotel sector patrons.
2. To research the GST rules that applies to the hospitality and food service sectors.
3. To research how the GST has affected the industry's expansion.

III METHODOLOGY

The information for this research paper was gathered from both primary and secondary sources.
In the Vijayanagara district, a survey is conducted to gather the main data. 25 hotels and restaurants (star hotels and regular restaurants) in the Vijayanagara District of Karnataka have completed surveys to provide the information. Additionally, local chartered accountants in practise are

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Vol-48, Issue-3, No.23, April-June : 2023

consulted for information. Secondary data is gathered through publications including books, journals, magazines, newspapers, and websites.

IV GST PROVISIONS ON HOTEL AND RESTAURANT INDUSTRY

The GST Council established the four-tier tax system on July 1st, 2017; taxes are assessed at 5%, 12%, 18%, and 28%. It decided to set up several tax brackets for eateries based on their revenue and whether or not they had air conditioning. The rates were in the range of 5% and 28%. Later on, however, the GST Council reduced the tax rates to a uniform rate of 5%, which is 18% when star hotels are excluded.

1. Type of registration: Under the new GST law, business units with a combined annual revenue of less than 20 lakh rupees are exempt from GST registration requirements. The composition plan (Notification No. 46/2017-Central Tax) is available to hotels with yearly revenue up to Rs. 1 crore, with the remainder hotels being covered by the standard scheme.

2. Tax rate: As of November 14, 2017, all restaurants are subject to a standard 5% tax, with no distinction made between AC- and non-AC-equipped establishments, per Notification No. 46/2017-Central Tax (Rate). Star-rated hotels that charge a daily room rate of 7,500 or more will be charged 18% GST. The hotels included in the composition plan are always subject to 5% GST, up from 4% under Karnataka VAT. However, alcohol is excluded from the GST's coverage and is subject to state taxes like the central excise and VAT. Bars thus do not notice any differences in tax rates.

Type of Restaurants	GST Rate
All restaurants	5% with ITC
Restaurants within hotels (room tariff<7,500)	5% with ITC
Restaurants within hotels (room tariff>7,500)	18% with ITC
Outdoor catering	18% with ITC

3. Input tax credit: Under the GST, restaurants do not transfer any benefits of the input tax credit on to customers. The government's decision to reduce the tax rate to 5% has resulted in the withdrawal of the input tax credit option. The composition system prohibits ITC benefits for hotels. However, the starred hotels that are subject to an 18% GST are still eligible for ITC.
4. Service fee and service tax: During the previous tax system, VAT was applied to the food portion of the bill, and service fee was applied at a rate of 15% to the remaining 40% of the bill for a restaurant. However, under GST, there is no longer a service tax; instead, a standard rate of 5% and 18% GST is applied to the overall amount of the bill.
5. Taxes on alcoholic beverages for human consumption: Since alcoholic beverages are still subject to central excise and state VAT, GST is not applicable to them. (Bar and Dining Room)

V FINDINGS OF THE STUDY:

Table showing type of business surveyed (no of units)

Type of Registration	Restaurants	Bar & Restaurants	Lodging only	Lodging with Restaurants	Total
COT	8	1	3	2	14
Regular	2	5	1	3	11
Total	10	6	4	5	25

ISSN: 2278-6864
Vol-48, Issue-3, No.23, April-June : 2023

Table showing the rate of tax applicable

Type of Registration	Restaurants	Bar & Restaurants	Lodging only	Lodging with Restaurants	Total
COT @ 5%	8	1	3	2	14
Regular under 5%	2	5	1	2	10
Regular under 18%	-	-	-	1	1
Total	10	6	4	5	25

VI ANALYSIS OF THE SURVEY

1. Tax rate change: The rate of tax for hotels registered under the composition system has increased from 4% to 5%. The restaurant owners will bear an extra 1% burden as a result. However, under the standard arrangement, it was 12%, and it has now been modified to 5% or 18% dependent on hotel room rates.

2. Menu costs and profit margins: According to the poll, the majority of restaurant operators raised their menu costs. They assert that the menu price and tax rate were higher under the previous regime. However, since there won't be a rise in the total cost of the bill, the restaurant's proprietors may have included an increase in menu pricing as a result of the current decline in tax rates. It was starred According to restaurant operators, menu prices cannot be lowered since the gain from lower tax rates will be outweighed by the loss from the removal of the input tax credit. Because the input tax credit contributes to the eateries' 3%–4% profit

The example below may help to better illustrate this:

	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

Due to an automatic rise in menu pricing from 200 to 213, the total amount of the bill in the example above stays the same. Without increasing the cost to customers, this will result in an extra profit of Rs. 13 for restaurant owners. In addition, they defend raising menu pricing because the input tax credit was lost.

The price list and profit margin for lodging won't be differentiated in any way.

In the case of COT, the menu price will alter as a result of a 1% tax rate rise, but since the supplier must pay the tax, the menu price is unaffected. However, they may raise the menu price to make up the 1% loss. However, there won't be any distinction in profit Margin.

3. Input Tax Credit: Under previous rules, the majority of the inputs utilised in this business, such as pulses, vegetables, milk, fish, and poultry, were exempt. This exemption is still in effect today.

There aren't any notable differences in the ITC rules because these materials make up a significant portion of the industry's costs.

4. Sales and industry growth: The majority of restaurant operators in the Vijayanagara district thought the GST was a wise choice for the sector. However, because the input tax credit is no longer available, the cost is not much reduced. The menu pricing may be made more affordable if the hotel owners so want and they can anticipate an increase in business and a general expansion of the hotel sector. Particularly A restaurants are expected to grow as the tax rates are reduced from 12 to 5%.

5. Customer satisfaction: Previously, the 12%–18% GST had increased consumers' eating expenses. It is a good thing that the GST rates for restaurants were revised since it would make eating out less expensive. Lower tax rates in AC eateries and the perception that costs have also been

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Vol-48, Issue-3, No.23, April-June : 2023

decreased make the lower and moderate income group happy. The menu pricing may be more competitive, especially in tourist areas, giving the clients an edge. Customers will be happy if the parts are cut down; else there won't be a difference in their degree of happiness.

6. Marketing techniques: Transaction value is estimated in accordance with various valuation criteria that have been established for various situations in order to determine GST liability. Input tax credit is obtained proportionately if free samples or discount offers are supplied as a part of a promotional campaign. On the percentage of the cost of items offered as free samples, ITC is not given. This can make restaurant owners less likely to provide special deals throughout the year or would encourage them to raise the prices of the real goods they sell to pay the expense of the free samples.

7. Filing of returns: Under the Composition Scheme, hotels and restaurants are obliged to submit GSTR-4 to declare the outward supplies they made and to pay taxes on those supplies. This GSTR-4 will be required to file quarterly. Hotels and Restaurants under the Regular scheme presently have two options of filing returns.

They have the choice of monthly or quarterly filing. However, GSTR-3B must be filed on a monthly basis alone for both quarterly and monthly reporting. Only those who chose monthly must submit GSTR-1 on a monthly basis while those who chose quarterly must file GSTR-1 on a quarterly basis, indicating the outward shipments made. They currently have till March 2018 to file GSTR-2 and GSTR-3, however the GST Council again postponed that deadline to June 2018 at its 26th meeting on March 10, 2018. All of the aforementioned returns must be submitted electronically using the GSTN Portal. Although there are a number of technical issues, they are only momentary and should be fixed shortly.

VII CONCLUSION

The companies are still attempting to comprehend the modifications that must be made to their present systems in order to comply with the new GST compliance mode. In keeping with that, an effort is made to concentrate the effect study on the restaurant and food sector. In any case, the GST will provide customers and restaurant owners reasons to celebrate under the new system, giving us more motivation to discover the newest restaurants in our area and indulge our palates. Restaurants, both AC and non-AC, are seeing a boom. As a consequence, the sector might expand and encourage new business startups.

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