



A STUDY ON IMPACT OF GST ON HOTEL INDUSTRY WITH REFERENCE TO PUNE CITY

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ABSTRACT :

After thirty years, changes in the indirect tax system were seen on July 1, 2017, in India. The Goods and Services Tax is a unified indirect tax aimed at achieving 'one nation one tax' and is applicable throughout the country. This current research work seeks to emphasize the effect of Goods and Services Tax on the Indian Hospitality Industry. With the introduction of GST, the Indian market will become consolidated and this will also reduce business costs in the long term. The hotel sector was burdened with various taxes on amounts billed for different services. Previously, additional fees were applied to several activities of hotels. However, under GST, a single tax is applied with clearly defined slab rates for various services. The slab rate increases as the amount of services charged increases; for basic services, the rates are lower, while luxurious services fall under a higher GST slab rate. Here, we aim to elucidate the impact of the GST system on hoteliers in Pune city. For this objective, the researcher collected samples from 22 hotels in the city. This study's goal is to assess the hotel owners' perceptions and their experiences in interacting with customers following the GST implementation.



KEYWORDS : Goods and Services Tax, Impact, Hotel Industry, Reforms, Perception.

INTRODUCTION

Goods and Services Tax is a type of indirect tax that eliminated all other indirect taxes in India. GST was officially enacted as The Constitution (One Hundred and First Amendment) Act, 2016. This amendment established a national Goods and Services Tax (GST) in India effective from 1st July, 2017. Goods and Services Tax is a thorough, multistage, destination-based tax that will be applied to every value addition and at the point of supply of goods and services. GST mitigates the negative impacts of earlier indirect taxes, including the cascading effect, high costs, ineffective tax structure, tax avoidance, and evasion, among others. GST is imposed by both the Central and State Governments and is charged in a similar manner according to their respective shares, demonstrating transparency in the tax structure.

Components of GST.

There are three applicable taxes under GST:

- SGST/UTGST: Collected by the State/Union Territory Government on an intra- state/union territory sale (E.g. within Maharashtra/Delhi)

- CGST: Collected by the Central Government on an intra-state/union territory sale (E.g. with Maharashtra /Delhi)
- IGST: Collected by the Central Government for inter-state sale (E.g. Maharashtra to Rajasthan)
- GST slab rates are 0%, 5%, 12%, 18%, 28% and out of which half of share goes to respective State Government and other half to Central Government.

REVIEW OF LITERATURE

Japee and Lakhani (2018) studied about Goods and Services Tax in India – Paradigm Shift in Taxation. This study focuses on impact of GST from international perspective. Researcher presented pre and post GST tax classification and also explained the importance and need of GST in India. This study also explains the journey of GST that how it came into effect in 2017 and also analysis of impact of GST on famous sectors of economy has been done. At last researchers concludes that this tax system will benefit the customers as well as the business houses only when the entire country works as a whole towards making it successful.

Saeeda (2019) studied about GST: Impact of GST on Various Aspects of Restaurant and Hotel Business in Anand and Nadiad District. The main aim of the study is to examine the impact of GST on various aspect of restaurant business in Anand and Nadiad City. For the study purpose, researcher selected 35 hotels and restaurants from Anand city and 33 hotels and restaurants from Nadiad city using Convenience Sampling technique. The study is based on primary data collected using structure questionnaire. Researcher used Pearson Correlation, T-test and Independent sample test for the hypothesis testing. Researcher concluded that effect of GST on sales and purchase of hotel and restaurants is positive to neutral but the profit remains constant even after the implementation of GST. Researcher also stated that accounting procedure and record keeping become easier and production and service cost remains same.

Subha and Premkumar (2020) examined An Empirical Study on Impact of GST on Hotel Industry at Chennai City. This study aims to find out the influence of GST on Hotel Industry at Chennai city with the help of five independent variables to indentify the opinion of respondents on the implementation of GST namely GST is effective, easy to understand, taxation condition, profit margin, customer increase after GST. For study purpose researchers collected data from 50 hotels by using structured interview method. The sampling technique adopted by researchers was disproportionate stratified random sampling method. Researchers used descriptive statistics and multiple regression analysis to analyze data. Researchers examined the pros and cons of GST with respect to Hotel Industry and also analyzed the positive or negative influence of GST on Hotel Industry at Chennai city. So finally study concluded that GST in hotel industry will attract more customers to consume hotel service and also enhance revenues to the government.

Jonathan and Gabriel (2017) examined the Impact of GST in hotel and restaurants. This study focuses on impact analysis on the restaurant and food industry. Researchers classified the restaurants on the basis of the food and services they provide respectively. And accordingly researchers examined the before and after GST scenario. Researchers explained how the restaurant bill will look under GST and what will be the implications for the end customers, the owners and the overall industry. So finally researchers concluded that companies specializing in food and beverages operations could be the biggest beneficiaries of GST within the hospitality sector. They further added that food and beverages bills have multiple components and can inflate the bills by 30-35% and a single slab tax will benefit consumers and should lead to savings of 10-15% on the overall bill.

Abraham and Mathew (2019) examined A Study on the Impact of Goods and Services Tax Reform on Hotels in Kerala. The main aim of the study is to examine the opinion of hoteliers on the implementation of GST. A questionnaire was designed and administered to 60 hotels with restaurants across the district of Kottayam for the study using convenience sampling technique. Researchers used percentages and chi square test to analyze the data. Moreover, researchers also focused to identify the problems faced by hoteliers on the implementation of GST. This study also assesses whether there is any increase in the compliance cost on the implementation of GST. So finally researchers concluded

that majority of the hoteliers have expressed faith in the system even though the majority of hotels have incurred additional costs in transitioning towards the new system as it is expected by them that in the long run GST will be proved beneficial.

Aswathy et al. (2018) focused on A Study on GST and its effect on hotel industry. This study aims to find out the impact of GST on hotel industry. Researchers classified the GST rates on the basis of room rent and then accordingly examined the impact of GST as per the rates. This study shows the impact of GST on hotel sector in terms of reduced tax rate, centralized registration, provision of GST audit, discount and offers policies of hotels and restaurants should be documented, effect of inward and outward receipts, no input tax credit on alcohol and electricity as they are out of the preview of GST and so on. So finally researchers concluded that companied that focuses on food and beverages could be the biggest beneficiaries of GST within the hospitality sector and on the other hand hotels falling under 18-28% GST slab bears the adverse effect of GST. With that researchers also suggested to reduce the average room rates which will be beneficial to both hoteliers as well as to the customers.

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 and due to fear of new system still there is less acceptance of the system by various businesses including hotel business. The GST slab rate is very 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.

GST Rates Applicable to Hotel Industry

- **Room Tariff:** GST on room tariff is based on actual rent hotel charged. If room tariff is below 1000Rs. then 0% GST rate; if room tariff is between 1000Rs. to 7499Rs. then rate is 12%; if room tariff is 7500Rs. Or above then 18% GST rate is applicable.
- **Restaurants:** GST rate is 18% on AC restaurants within hotels but opted for composition scheme where takeaway is available then GST rate is 5%.
- **Banquets:** GST rate on banquet hall is 18%.
- **Other Services:** GST rate on services like laundry, doctor on call, spa, etc. is 18%. But GST rate is 5% on services like car rentals, cab, etc. provided by hotels.

NEED AND RELEVANCE OF THE STUDY

The Hotel Industry is in burdened of taxes at every point i.e. right from the purchase of raw materials till sale of services and goods. GST rates are more on high room tariffs and issue in compliance of GST rates on various services provided by hotels. Challenges are faced by the hoteliers with respect to GST rates charged to customers variedly on different services.

Another important reason for this study is to stop hoteliers to cheat their clients and on other hand also to examine the problems faced by them in compliance with the system and their perception regarding the GST implementation and its effect on their business.

STATEMENT OF PROBLEM

Goods and Services Tax (GST) affected various sectors of Indian economy. Hospitality industry is one of the important with highly growth industry of India. Consequently, change in indirect taxation system will have an impact on the industry. This paper highlights the impact of GST on hotel industry and perception of hoteliers after its implementation.

OBJECTIVES OF THE STUDY

The objectives of the present study are given below:

1. The overall objective of the study is to evaluate the impact of GST on hotel industry.
2. To evaluate the customer satisfaction by observing the impact on customers buying behaviour.
3. This study also aims to analyse the relationship between clarity of customers regarding GST and issues faced by hotelier while handling their customers.

HYPOTHESES OF THE STUDY

Null Hypothesis

- H0: There is no significant relationship between customer satisfaction and difference in their buying behaviour after implementation of GST.
- H0: There is no significant relationship between Clarity of Customers regarding GST and issue in Customer Handling in hotel industry.

Alternative Hypothesis

- H1: There is a significant relationship between customer satisfaction and difference in their buying behaviour after implementation of GST.
- H1: There is a significant relationship between Clarity of Customers regarding GST and issue in Customer Handling in hotel industry.

RESEARCH METHODOLOGY

For the study purpose the data has been collected from primary source through structure questionnaire. Sample of 22 hotels collected from Pune city of Maharashtra state for testing the hypothesis as per convenient sampling method. The data collected were analysed using chi square test.

Analysis of relationship between customer satisfaction and change in their buying behaviour

Crosstab

			Change in Buying Behavior			Total
			Agree	Neutral	Not Agree	
Customer Satisfaction	Yes	Count	11	3	1	15
		% of Total	50.0%	13.6%	4.5%	68.2%
	No	Count	0	7	0	7
		% of Total	0.0%	31.8%	0.0%	31.8%
Total	Count		11	10	1	22
	% of Total		50.0%	45.5%	4.5%	100.0%

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.320 ^a	2	.002
Likelihood Ratio	15.304	2	.000
Linear-by-Linear Association	5.976	1	.015
N of Valid Cases	22		

Interpretation

From the above Pearson Chi Square table it can be seen that the value is 12.320 and $p < 0.05$, such data revealed that null hypothesis is rejected.

So it is concluded that there is a significant relationship between customer satisfaction and change in their buying behavior.

Analysis of relationship between clarity for customers regarding GST and issue in customer handling in hotel industry

Crosstab

				Clarity of Customers			Total
				Agree	Neutral	Not Agree	
Issue in Customer Handling	Yes	Count		3	0	13	16
		% of Total		13.6%	0.0%	59.1%	72.7%
	No	Count		5	1	0	6
		% of Total		22.7%	4.5%	0.0%	27.3%
Total		Count		8	1	13	22
		% of Total		36.4%	4.5%	59.1%	100.0%

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.547 ^a	2	.002
Likelihood Ratio	15.197	2	.001
Linear-by-Linear Association	9.811	1	.002
N of Valid Cases	22		

Interpretation

From the above Pearson Chi-Square table it can be seen that the value 12.547 and $p < 0.05$, such data revealed that null hypothesis is rejected. So it is concluded that there is a significant relationship between clarity of customers regarding GST and issue in customer handling in hotel industry.

CONCLUSION

Hotels gain advantages in the food and beverages sector, and this system is advantageous for budget hotels falling under the slab rate of 12%. However, hotels that fall under the slab rate of 18-28% are experiencing negative effects due to GST. With these objectives established, we can conclude that there is a significant relationship between customer satisfaction levels and changes in their purchasing behavior following the implementation of GST in the hotel industry.

Customers have a clearer understanding of GST rates and a transparent view of the taxes they pay for services consumed in hotels. There is a significant relationship between the clarity customers possess regarding GST rates in the hotel industry and the challenges hoteliers face in managing their customers. This boosts government revenues as it will lead to increased consumer spending in hotels, which, in turn, enhances employment opportunities within the hotel industry. Despite this positive influence, hoteliers are encountering some financial challenges when interacting with their customers.

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