

IMPACT OF GOODS AND SERVICE TAX ON FOOD INDUSTRY

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Abstract

The study concludes on the basis of the literature that GSTs impact will be having both positive and negative implications on food sector i.e., higher the tariff on restaurants (where room tariff more than 7500) have 18% tax which is regressive in nature which reduces the frequency of people visiting to restaurants and the lower tariff hotels with 5% GST have benefited. After the implementation of GST Act, the people who used to have breakfast, lunch, or dinner in the restaurants have noticed an ease in taxation procedure in terms of the bill as GST (Goods and Service Tax) came as a replacement for several taxes and cesses, such as KKC (Krishi Kalyan Cess), VAT (Value Added Tax), and Service Tax. Further, after the applicability of GST on Food Industry, customers have also witnessed the reduction in the tax rates on their restaurant bills. But the reduction in the cost of eating out for customers was noticed to be marginal at best. The GST has not impacted the service charge, which is applied by the restaurants on the bill. Therefore, the customers are still paying Service Charge in addition to GST on food. The objective of the study is to highlight the impact of GST on restaurant business. This study analyses impact of GST on Restaurants and Food Service Businesses. It shall be noteworthy to state that the alcoholic beverages still fall under the ambit of state-level VAT (Value Added Tax). This will provide insights to see how GST will function in this sector and will enable us to know the benefits and drawbacks of GST in this regard. The study finds that GST has both benefit and drawbacks on restaurants and food service business.

Keywords: GST, VAT, Input tax Credit (ITC), Food and beverages, Restaurants and Food Service Business, Indirect Tax, Taxation System, Tax Obligation.

INTRODUCTION

The introduction of the Goods and Services tax will be a very noteworthy step in the field of indirect tax reforms in India. By merging a large number of Central and State taxes into a single tax, GST is expected to significantly ease double taxation and make taxation overall easy for the industries. Goods and Services Tax on food services in India can be 5%, 12% or 18% depending on a variety of factors including but not limited to type of establishment and location of restaurant/food service provider. The implementation of GST on food services replaced the earlier VAT and service tax regime, however, the service charge which is implemented by restaurants is separate from GST. It is notable that alcoholic beverages still attract VAT, which is a state level tax, therefore restaurants serving both food and alcoholic beverages will feature separate taxes with GST being applicable to food and non-alcoholic beverages while VAT will be charged on alcoholic beverages served. Apart from food services, GST on food is also applicable to food items purchased by the common man which currently feature rates ranging from nil to 18% GST.

Section 1, India is one of the 123 countries across the world that is following the VAT mode. White Paper with basic design for VAT was released on January 17, 2005 by the Finance Minister P. Chidambaram. VAT was introduced both at centre and state level. Across the world India is one of the 123 countries that is following the VAT mode which was introduced at both central and state level. At the national level GST is a full inclusive of indirect tax levy on manufacture, sale and consumption of goods as well as services. The application of GST to food items will have a significant impact on those who are living under subsistence level. But at the same time, a complete exemption for food items would drastically shrink the tax base. Food includes grains and cereals, meat, fish and poultry, milk and dairy products, fruits and vegetables, candy and confectionary, snacks, prepared meals for home consumption, restaurant meals and beverages. Even if the food is within the scope of GST, such sales would largely remain exempt due to small business registration threshold. Given the exemption of food from CENVAT and 4% VAT on food item, the GST under a single rate would lead to a doubling of tax burden on food. Hence, the gain of lower or zero tax rates should also be prolonged to all food items in India regardless to degree of processing.

LITERATURE REVIEW

Introduction Of Private Label Product

Private label product is defined as the only trademark, which can only be found on the packaging and sold in a specific chain of store in low price (Hoch, 1996). Retailers control private label product where they can decide the marketing activities such as advertising, packaging and wholesale price and investments of inventory (Chen, 2008).

Private label product is usually low in price and hence become an alternative product choice for consumers (Walker, 2006). However, consumers who judge product by quality will be less likely to purchase private label product. They believe quality is more important than price (Aila wadi et al., 2001; Richardson et al., 1996a). Based on previous studies, consumers begin to accept the private brand and believed that private label product represent good value for price (Laaksonen and Reynolds, 1994).

Purchase Intention

Consumers' buying decision is very complex. Usually purchasing intention is related with consumers' behaviour, perception and their attitude. Purchase behaviour is an important key point for consumers during considering and evaluating of certain product (Keller, 2001). Ghosh (1990) stated that purchase intention is an effective tool use in predicting purchasing process. Once the consumers decide to purchase the product in certain store, they will be driven by their intention. However, purchase intention might be altered by the influence of price, quality perception and value perception (Zeithaml, 1988) and Grewal et al (1998). In addition, consumers will be interrupted by internal impulse and external environment during purchasing process. Their behaviour will be driven by the physiological motivation that stimulates their respond which bring them to the retail store to fulfil their need (Kim and Jinn, 2001).

Factors Influencing Purchase Intention Towards Private Label Product

There are numbers of study on private label product in foreign study however there is no specific research on purchase intention towards private label product in Ahmedabad. With respect to private label food products, several studies have been carried out in the past to determine the consumers' motivation, perception, preference and behaviour on food products. There is only one study on consumers' intention of buying own label premium food products, which guided the present study. Based on the study, factors that influencing consumers' purchase intention are 'consumers' attitudes', 'extrinsic factors' and 'intrinsic factors' of the products.

Consumers' Attitude Towards Private Label Products

Consumers' attitude is an important factor in influencing consumers' purchase intention towards private label product. Consumers' attitude includes 'trust in private label product', 'familiarity' and 'perceived economic situation'. Chaniotakis et al. (2010) stated that 'the way of thinking' influence consumers' purchase intention as well as perceived of economic situation. A study found that, consumers would try to save more money by purchasing private label product during economic downturn and once the condition turn to be better; they will shift back to their familiar brands. This is because when the product is familiar to a person; he or she will define the product in such a good way. Therefore, in order to build up trust on private label product, retailers should let consumers feel confident with their product. Trust in private label product is influenced by perceived benefit, which means that perceived price-quality affects consumers' attitude. Once purchasing is made, internal memory arise from purchase experiment along with external memory arise by the information received would play their role in the purchasing process. People with negative experience toward a product will give a negative impact for future purchase while when the quality matched the price, a positive impact is shown.

Extrinsic Factors of The Product

Extrinsic is defined as not an inherent part of the thing or not contain in something (Free Dictionary, 2011). Research shows that extrinsic cues play an important role in influencing consumers' purchase intention than intrinsic cues (Richardson, 1997). Extrinsic factors of the product include 'perceived price, packaging, store image, and advertisement.

Previous studies stated that consumer intention is influenced by monetary cost (Grunert et al, 2004). In addition, Munusamy and Wong (2008) proved that there is a significant positive relationship between price and consumers' motives towards purchase of private label product. Therefore, the majority of consumers will make their decision by referring on low price product (Boutsouki et al., 2008). Besides, packaging is important due to it reaches almost all consumer, therefore it is an important factor in the decision-making process, and consumer usually examined product by looking at the information provided on the packaging (Ampuero and Vila, 2006). Furthermore, advertisement acts as communicator where it informs consumers about the product and service (Uusitalo, 2001). Kim and Parker (1999) suggest that it is hard to measure the successful advertisement of private label product and a successful advertisement is often come along with a good image (Steinberg, and Jules, 2001). This statement is in line with the previous studies conducted by Liljander et al. (2009) who revealed that store image influence consumers' purchase intention on private label product.

Intrinsic Factors of The Product

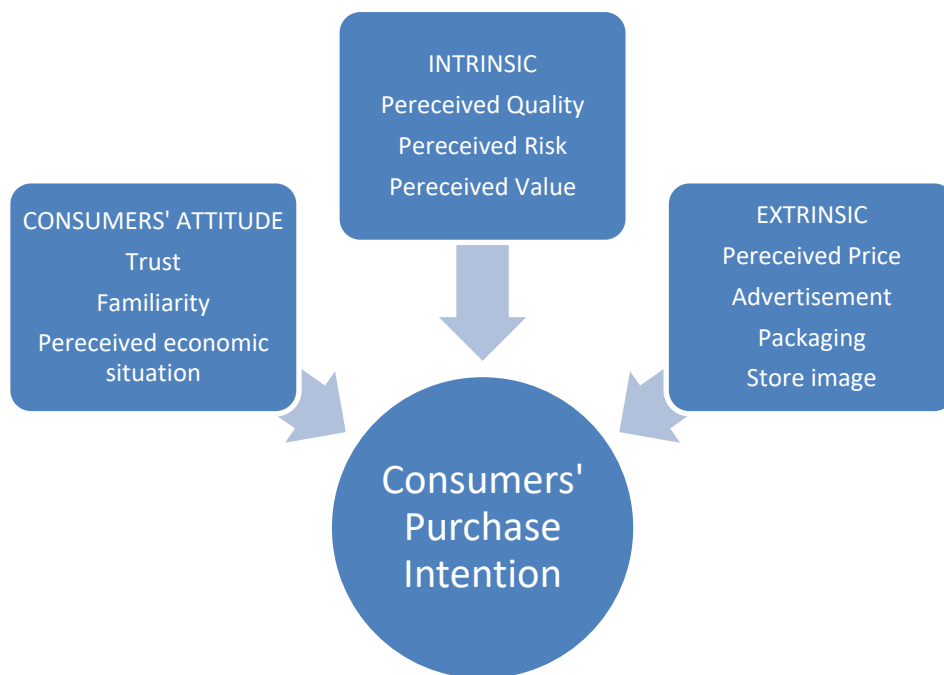
Intrinsic is defined as being part of the natural of something (Longman Dictionary, 2004). Intrinsic factor is related to physical product characteristics where it includes perceived quality, risk and value.

Food safety is an important issue nowadays, where people are more concern on the safety of the product especially those related to food product. Risk is due to a mistake or uncertainty. Uncertainty happens due to the appearance of the product. Consumers always think that purchasing a low price, simple packaging and even less-well known product are highly risky because the quality of those products are of lack of confidence and doubtful (Sudhir and Talukdar, 2004). That is the reason why consumers perceived private label product as high-risk products. Most of the consumers are not so familiar with private label product (Cox, 1967) and they do not understand the product very well, therefore afraid of making wrong decision (Batra and Sinha, 2000). Consumers usually maximize their utility of the product they purchase by avoiding mistake. On that basis, manufacturer branded products which are higher in price are always perceived to be high quality product with lower risk and hence, they will always use price and brand to determine the quality of the product.

Past Experience with Private Label Brand Food Products

In this study, the influence of consumers' past experience with the private label food products on purchase intention is not studied. The focus is to examine how consumers differ in their perception and attitudes towards private label food products if they have or do not have experience with those products. Consumers' purchasing experience involves the internal and external memory which would play an important role in the purchasing process (Bettman, 1979). Internal memory comes from the actual experience consumers have with the goods or service while external memory is originated from information related to the goods or service. The experience of purchasing last longer and will remain in consumers' mindset. Therefore, they will immediately start evaluating on the items they purchased and the result of the purchasing experience toward the items will be kept in their mindset for a very long time (Keller, 2001). People with negative experience towards a product will give a negative impact for future purchase while when the quality matched the price, a positive impact is shown. Such experience especially negative ones are easy to be share with others and thus influence their decision-making (Jarvala, 1998).

Based on the above discussion, it can be concluded that 'perceived price', 'packaging', 'advertisement', 'store image', 'perceived quality', 'perceived risk', 'perceived value', 'trust on the product', 'familiarity', 'perceived economic situation', are related to consumers' purchase intention towards private label food products which lead to the formation of framework for the present study as depicted in Figure 1.



OVERVIEW OF THE FOOD INDUSTRY IN INDIA

As per a report named the 'Indian Food Services Market Forecast and Opportunities 2020', published by the TechSci Research, the food service industry in India is expected to rise at a CAGR of over 12% by the end of 2020. Further, the reasons behind the growth and boost in this sector are as follows:

<https://swaritadvisors.com/learning/wp-content/uploads/2020/07/reasons-behind-the-growth-and-boost-in-Food-Sector.png>.

1. Increasing Disposable Income
2. Changing Lifestyle
3. Taste and Preferences of the Consumers
4. Youth Population in the Country

OBJECTIVES OF THE RESEARCH STUDY

- To study about Goods and Service Tax and its impact on Restaurants and Food Service business.
- To examine the impact of GST on restaurant food bills.
- To examine the impact of GST on restaurant owners purchase bills.

SCOPE OF STUDY

- To increase the tax base by bringing a greater number of tax payers and increase tax revenue.
- To simplify tax return procedures through common forms and avoidance of visiting tax departments.
- To provide online facilities for payment of taxes and submission of forms. Goods and Services Network (GSTN), a robust Information Technology system has been created for the operation of GST.

RESEARCH DESIGN

This exploratory study focuses on analysis of the secondary data collected from the newspapers, magazines and from various websites which have published and focused on various aspects of Goods and Service tax and how it affects the restaurant bills and the marketing aspects of these firms/businesses.

LIMITATIONS OF RESEARCH STUDY

- This will affect the footfalls at such hotels, thus directly and indirectly affecting the footfalls at the restaurants in such hotels.
- The tax bracket for budget and luxury hotels is too wide.
- This will affect the footfalls at such hotels, thus directly and indirectly affecting the footfalls at the restaurants in such hotels.

BENEFITS OF STUDY

- GST eliminates the cascading effect of tax
- Improved efficiency of logistics
- Ensuring food safety
- Personalised nutrition and health
- Preserved and improved nutritional quality
- Reducing health inequalities and concerns

CONCLUSION

The restaurant business is presently burdened with a number of taxes at each and every point- right from the acquisition of the raw materials to the sales of finished items. Multiple levels of indirect taxes at the Central Level, State Level, and additional Excise and Customs Duties give major barriers in the smooth functioning of the business. However, underneath the new regime GST subsumes both these taxes into itself and therefore no matter product and services, adjustment of credit of input is available against output liability. This may optimize further the working capital of those restaurants and customers need not settle for inferior quality of food and services. Therefore, restaurants and food service businesses must draw outline of future in view of evaluation of GST and its impact on their businesses and functions mandatorily.

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