

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

Sunny S. Mirchandani, Dr. Gurudutta P. Japee

Research Scholar,
S.D. School of Commerce,
Gujarat University, Ahmedabad.

Associate Professor,
S.D. School of Commerce,
Gujarat University, Ahmedabad.

Abstract

After three decades, reforms in indirect tax system reflected on 1st July, 2017 in India. Goods and Services Tax is a single indirect tax with an aim of 'one nation - one tax' and is applicable in whole country. This present research work attempts to highlight the impact of Goods and Services Tax on Indian Hospitality Industry. With the implementation of GST, Indian market will be unified and this will also lower the cost of business in long run. The hotel industry was in burden with multiple taxes on amount charged for different services. Additional charges on various activities of hotels were charged previously. But now in GST, single tax charged with clearly stated slab rates for various services. Slab rate increases with increase in amount of services charged i.e. for basic services rates are less and luxurious services are under high GST slab rate. Here we try to explain the impact of GST system on hoteliers of Ahmedabad city. For this purpose researcher collected samples from 22 hotels of the city. This study aims to evaluate the perception of the hotel owners and their experience in dealing with customers after the implementation of GST.

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

INTRODUCTION

Goods and Services Tax is an indirect tax which replaced all other indirect taxes in India. GST officially introduced as The Constitution (One Hundred and First Amendment) Act, 2016. This amendment introduced a national Goods and Services Tax (GST) in India from 1st July, 2017. Goods and Services Tax is a comprehensive, multistage, destination-based tax that will be levied on every value addition and at the time of supply of goods and services. GST offsets the side effects of previous indirect taxes such as cascading effect, high-cost, inefficient tax structure, tax avoidance and evasion, etc. GST is levied by both Central and State Government and charged similarly as per their respective shares that shows the transparency in 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 Gujarat/Delhi)
- CGST: Collected by the Central Government on an intra-state/union territory sale (E.g. With Gujarat/Delhi)
- IGST: Collected by the Central Government for inter-state sale (E.g. Gujarat 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 identify 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, centralised 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 companies that focus 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 ON 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 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:

- The overall objective of the study is to evaluate the impact of GST on hotel industry.
- To evaluate the customer satisfaction by observing the impact on customers buying behaviour.
- 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

- H_0 : There is no significant relationship between customer satisfaction and difference in their buying behaviour after implementation of GST.
- H_0 : There is no significant relationship between Clarity of Customers regarding GST and Issue in Customer Handling in hotel industry.

Alternative Hypothesis

- H_1 : There is a significant relationship between customer satisfaction and difference in their buying behaviour after implementation of GST.
- H_1 : 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 Ahmedabad city of Gujarat 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 are benefited in food and beverages area and also this system is beneficial for budget hotels which are under slab rate of 12%. But hotels that comes under 18-28% slab rate facing adverse effect of GST. With the above objectives determined, we can conclude that there is significance relationship between level of customer satisfaction and change in their buying behaviour after implementation of GST in hotel industry. There is clarification of customers regarding GST rates and have clear picture of taxes they pay for the service consumer in hotels. There is a significance relationship between the clarity customers having about GST rates in hotel industry and issues faced by hoteliers in handling their customers. This enhances the revenues of government as it will increase consumer consumption of hotels and which in turn increases the employment opportunities in hotel industry. With this positive impact, hoteliers facing some issues financially while dealing with their customers.

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