

A Study on the Impact of Goods and Services Tax Reform on Hotels in Kerala

Ann Abraham,

Assistant Professor,
Department of Commerce
CMS College Kottayam, Kerala, India.

Dr. Tomy Mathew,

Associate Professor,
Department of Commerce
CMS College Kottayam, Kerala, India.

ABSTRACT

Goods and Services Tax reform is one of the biggest reform in the history of independent India. It is a single tax on the supply of goods and services from the manufacturer to the consumer. The Indian Hotel Industry is one of the booming sectors in the economy and it contributes to around 6.23% of National GDP and 8.78 percent of the total employment in the country.

A month after the introduction of GST; Ganesh Shetty, President of Restaurants and Hoteliers Association, Pune, said that the businesses in hotels across India had come down by 20%. He further stated that the hotels were incurring high costs in terms of the up gradation of IT infrastructure, training of personnel and hiring of experts for compliance with the new system of GST. The consumers also complained about the increase in their restaurant bills and have stated that their bills are more than the earlier regime. In this context, a study is undertaken to identify the problems and prospects of the impact of GST Reform on Hotel Industry in Kerala. The study revealed that the hoteliers faced problems in transitioning to the new system, their compliance costs rose and there was a general increase in the price of goods and services. However, it is expected that in the long run GST will prove beneficial and make the dream of One Nation One Tax come true.

Keywords: GST, VAT, Hotel Industry, Indirect Tax , reforms in taxation.

INTRODUCTION:

The Goods and Services tax is said to be one of the biggest tax reforms since independence. It is an indirect tax that applies to the entirety of India, replacing several cascading taxes imposed by India's central and state governments. Introduced as the Constitution One Hundred and First Amendment Act of 2017, GST provides a simpler way for taxing goods and services.

The "One Nation One Tax" regime was rolled out on 1st July 2017. Aiming a unified domestic market, GST will be levied at all points in the supply chain with credit allowed for any tax paid on input. So, it is a value added tax and the revenue from GST would be shared by the Centre and State. GST will be levied concurrently by the Centre (CGST) and the States (SGST) and would apply to both goods and services in a comprehensive manner with specified exemptions.

The goods and services throughout India are taxed at a homogeneous scheme using the following rates under GST: 0%, 5%, 12%, 18%, and 28%. There are special rates, though, imposed on specific products: 3% for gold and 0.25% for rough precious and semi-precious stones. Additionally, a cess of 22% on top of the 0% to 28% rate is levied on certain products such as tobacco, luxury cars, and carbonated drinks.

Replacing the entire indirect tax system comprising Central Excise Duty, Service Tax, Additional Customs Duty, Special Additional Duty of Customs, Central Sales Tax, Central surcharges and cesses, State level VAT and other local levies, the GST will make "One India" having competitiveness and an investment environment.(GST India, 2017). GST has been envisaged as an efficient tax system with a wider tax base, lower

tax rates, rationalized tax structure and simplified compliance procedures. (Ernst and Young India, 2016)

Scenario of Hotels in India:

A hotel is a commercial establishment offering living quarters and facilities for the assemblage of people for social, business or entertainment purposes. It provides temporary lodging, accommodation with or without arrangements for meals, other prepared food and refreshments. (Directorate of Economics and Statistics). The growth of the hotel industry in any place is an index of the economic development of that region, especially the industrial development and development in terms of tourist activity.

Tourism industry is a major employment generating sector and a significant source of foreign exchange in India. For tourism to grow on healthy lines and to make substantial headway, the quantum of accommodation available and the facilities offered should be adequate to meet the needs of the prospective tourists. Also, the range of variety offered should be suitable to their varied tastes and purses.

Hotels and Restaurants have played an important role in the travel and tourism industry. The Indian Hotel Industry had a turnover of US \$136.2 billion at the end of 2016. The hotel industry (including tourism) also contributed to 6.23 percent to the National GDP and 8.78 percent of the total employment in the country during 2016-17.

Scenario of Hotels in Kerala:

In Kerala also, the hotels and restaurants play a major role in the travel and tourism industry. They thrive largely due to the growth in travel and tourism industry, which is an important employment generating sector and a significant source of foreign exchange for the State. Due to the increase in tourism with rising foreign and domestic tourists; hotel & restaurant industry has grown in the State. This sector is growing with the expansion of domestic and foreign tourist arrival, medical tourism, spiritual tourism and thousands of people move daily across the State.

GST Rates applicable to Hotels:

On July 1st 2017, when the GST was first introduced in the country, the rates prescribed for hotels were 12% on non a/c restaurants and 18% on a/c restaurants. Hotels and lodges having tariff less than 1000 INR will be taxed at 5%, while those between 1000-2500 will be charged at 12%. Hotels between 2500-5000 will be charged at 18%, and hotels having tariff above 5000 will be considered luxury hotels and charged at 28%.

These rates were met much criticism from all stakeholders connected with the hotel and restaurants sector. Riyaz Amlani, president of NRAI (National Restaurant Association of India) stated that heavy taxation and regulations would result in the 'leakage' in revenues and that restaurants and hotels should be given impetus as they provide a lot of jobs and are critical for tourism to grow. The clamor for revision of rates in the hotels was finally considered by the GST council amidst mounting criticism and protests from different strata of the society.

In the 23rd GST Council Meeting held on 10th November 2017, the GST rates applicable for restaurants were reduced. The new rates which came into effect from 15th November 2017 stated that Stand-Alone Restaurants including mess, canteen which does not have an attached residential or lodging facility will have to charge 5% GST on all food and drinks. The 5% GST rate will be divided between 2.5% CGST and 2.5% SGST.

In case of a restaurant, mess, canteen or eating joint attached to a hotel, residential or lodging facility, the GST rate chargeable will be dependent upon the maximum room declared tariff charged by the lodging facility. Even if one of the rooms has a declared tariff of more than Rs.7500, the GST rate chargeable would be 18%. If the declared tariff for all the rooms in the lodging facility is less than Rs.7500 per night/day, the GST rate applicable for the restaurant would be 5%.

REVIEW OF LITERATURE:

Since the reform is of recent origin, the number of studies done on this area is sparse. However, an attempt has been made to consolidate the available studies and present the relevant opinions and findings.

Nitin (2014) opined that the implementation of GST would remove the economic distortions caused by the present indirect tax system. It would also encourage an unbiased tax structure which now nonexistent in the country. Chaurasia (2016) stated that the implementation of GST would boost the Indian economy by more than two per cent. Sharma (2017) supported this and added that GST will be a powerful tool in plugging the loopholes in the current system of taxation and provide benefits like increased GDP, employment, better markets, more exports etc.

There were also doubts and apprehensions about the implementation of GST. Pinky (2014) stated that if a

reform of this large scale is to be successful, it should be backed by a strong IT infrastructure. A web article entitled "Impact of GST on Hospitality Industry" concluded that, "GST is a mixed bag of better and easier rules and regulations, and increased costs and compliances. Another article stated that luxury hotels may see a drop in occupancy in the coming months since there would be a significant increase in their pricing, but for the other hotels, it would remain the same.

The Hotel and Restaurant Association of Western India had been lobbying for a GST rate of five per cent as it believed that a lower rate will bring in more tourists and allow Indian businesses to compete with global chains. However, GST Council first deemed it fit to set the rate at 18%. But the pressure from the hoteliers and the general public made them to reduce the rate to five percent.

The Finance minister Mr. Arun Jaitley while slashing the GST rate on hotels commented that since the hotels did not pass on the ITC benefit to customers, they will not be eligible to avail ITC themselves. This decision of not providing input tax credit to hoteliers was met with much discontent from hoteliers and they stated that the very concept of Input Tax Credit is central to GST which is to prevent cascading of taxes.

The latest GST council's decision to levy tax on the transaction value of hotel rooms instead of the declared tariff was received well by the hoteliers. Dhanuka (2018) stated that this decision will benefit consumers and improve the ease of doing business as hotels will be able to offer upgrades to customers without the fear of charging 28 percent GST.

Pandey (2017) said that as far the GST rates applicable to hotels in India are concerned, it was very high when compared to its Asian counterparts. This could lead to having adverse effects in the hospitality sector in the long run. While Japan levies a tax rate at 8 percent in the hospitality sector, Singapore levies at 7 percent, India definitely stands at a weak spot.

STATEMENT OF THE PROBLEM:

The tourism and hospitality industry in India is one of the most booming, revenue generating sectors of the economy. It is expected to grow to US\$ 280.5 billion by 2026. The hotels and restaurants play a major role in this industry. The introduction of GST was however with some hiccups. A month after the introduction of GST; Ganesh Shetty, President of Restaurants and Hoteliers Association, Pune, said that the businesses in hotels across India had come down by 20%. He further stated that the hotels were incurring high costs in terms of the upgradation of IT infrastructure, training of personnel and hiring of experts for compliance with the new system of GST. The consumers also raised complaints regarding the high bills charged by restaurants. In this context, a study is proposed to be conducted to identify the impact of GST reform implementation on hotels across Kerala.

OBJECTIVES OF THE STUDY:

- To examine the opinion of hoteliers on the implementation of GST.
- To identify the problems faced by hoteliers on the implementation of GST.
- To assess whether there is any increase in the compliance cost on the implementation of GST.

HYPOTHESES OF THE STUDY:

- The various categories of hoteliers do not significantly differ in their opinion on whether GST is beneficial to hoteliers.
- The various categories of hoteliers do not significantly differ in their opinion on whether there is difficulty in maintaining different books of accounts under GST.

METHODOLOGY OF THE STUDY:

Sampling Frame:

There are a total of 4762 hotels in the state of Kerala out of which 275 are in Kottayam. Out of these 275 hotels, only 123 hotels have restaurants. Out of these 123 hotels, 60 hotels are selected for the study using convenience sampling technique. The hotels were classified into three categories on the basis of their annual turnover:

Small budget Hotels: Rs.20 lakh- Rs 50 lakh

Medium Range Hotels: Rs 50 lakh-Rs 1 crore

Luxury Hotels: Above 1 crore

Stand alone Restaurants, tea stalls, thattukadas etc are excluded from the purview of the study.

Tools of Data Collection:

A questionnaire was designed and administered to 60 hotels with restaurants across the district of Kottayam.

Tools of Data Analysis:

The collected data were analysed using percentages and chi square.

DATA ANALYSIS AND INTERPRETATION:

Opinion of Hoteliers as Regards GST:

The introduction of GST is believed to have an impact on hoteliers in relation to the prices of goods, the simplicity of tax structure, benefits and harassment of hoteliers and the tax revenue of the government. Thus the first objective has been framed as, "to study the opinion of hoteliers about GST".

Opinion of hoteliers on the price of goods:

Table 7.1. shows the opinion of hoteliers on whether GST has resulted in the increase in the prices of goods.

Table 7.1: Opinion of hoteliers on whether GST results in an increase in price of goods

Type of Hotels	Agree		No Opinion		Disagree		Total
	No	%	No	%	No	%	
Small Budget Hotels	14	70	3	10	3	20	20
Medium range Hotels	9	60	4	25	7	15	20
Luxury Hotels	11	40	4	20	5	40	20
Total	34	56.67	11	18.33	15	25	60

Source: Primary data

From the table, it is seen that out of the total of 60 respondents, 56.67% agree that there is an increase in the price of goods, 25% disagree that there is an increase in the price of goods and 11% do not have any opinion as regards the price of goods.

Opinion of hoteliers about the transition to GST:

Table 7.2: Opinion of hoteliers on transition to GST

Type of Hotels	Smooth		No Opinion		Difficult		Total
	No	%	No	%	No	%	
Small Budget Hotels	1	5	2	10	17	85	20
Medium range Hotels	3	15	5	25	12	60	20
Luxury Hotels	8	40	4	20	8	40	20
Total	12	20	11	18.33	37	61.67	60

Source: Primary data

From the table, it is seen that out of the total of 60 respondents, 61.67% opine that the transition to GST was difficult, 20% said it was smooth while 18.33% had no opinion.

Opinion of hoteliers on whether GST is beneficial to hoteliers:

Table 7.3: Opinion of hoteliers on whether GST is beneficial

Type of Hotels	Agree		No Opinion		Disagree		Total
	No	%	No	%	No	%	
Small Budget Hotels	8	40	7	35	5	25	20
Medium range Hotels	9	45	6	30	5	25	20
Luxury Hotels	7	35	3	15	10	50	20
Total	24	40	16	26.67	20	33.33	60

Source: Primary data

From the table, it is seen that 40% of hoteliers agree that GST is beneficial, 33.33% disagree and 26.67% have no opinion.

In order to examine the significance of the difference in the opinion of the various categories of hoteliers on whether GST is beneficial to hoteliers, a chi-square test is conducted by taking the null hypothesis as, 'the various categories of hoteliers do not significantly differ in their opinion on whether GST is beneficial to hoteliers'.

Since the calculated value (3.046) is less than the table value (9.488) at 4 degrees of freedom and at 5% level of significance, the null hypothesis is accepted and it is concluded that the various categories of hoteliers dealing in different businesses do not significantly differ in their opinion on whether GST is beneficial to hoteliers.

Opinion of hoteliers on whether GST system enhances the tax revenue of the government:

Table 7.4: Opinion of hoteliers on whether GST enhances tax revenue

Type of Hotels	Agree		No Opinion		Disagree		Total
	No	%	No	%	No	%	
Small Budget Hotels	18	90	2	10	0	0	20
Medium range Hotels	19	95	1	5	0	0	20
Luxury Hotels	17	85	3	15	0	0	20
Total	54	90	6	10	0	0	60

Source: Primary data

From the table, it is seen that 90% of hoteliers agree that GST enhances the tax revenue of the government.

IDENTIFICATION OF PROBLEMS FACED BY THE HOTELIERS:

The hoteliers faced many issues while adopting the new system of GST. Hence the second objective has been framed to identify the problems faced by the hoteliers in GST implementation.

Registration of GST:

Table 7.5: Registration Procedure of GST

Type of Hotels	Complex		No Opinion		Smooth		Total
	No	%	No	%	No	%	
Small Budget Hotels	6	30	2	10	12	60	20
Medium range Hotels	3	15	3	15	14	70	20
Luxury Hotels	2	10	0	0	18	90	20
Total	11	18.34	5	8.33	44	73.33	60

Source: Primary data

From table it is seen that 73.33 % of the hoteliers said that the registration procedure of GST was complex, 18.34% said it was smooth while 8.33% had no opinion.

Difficulty in maintaining different books of accounts:

With the introduction of the GST system, hoteliers had to get acquainted with new GST procedures, regarding the entries for purchases and sales, filing of GST returns, , and recording more information on all sale documents-cash memos, bills, invoices, etc. So the hoteliers were asked whether they faced any difficulty in maintaining different books of accounts under the new regime.

Table 7.6 Difficulty in maintaining different books of accounts

Type of Hotels	Yes		No		Total
	No	%	No	%	
Small Budget Hotels	15	80	5	20	20
Medium range Hotels	14	70	6	30	20
Luxury Hotels	6	55	14	45	20
Total	35	58.33	25	41.67	60

Source: Primary data

From the table, it is interpreted that 58.33% of hoteliers faced difficulty in maintaining various books of accounts under GST while 41.67% do not have any issues.

In order to examine the significance of the difference in the opinion of various categories of hoteliers on whether there has been difficulty in maintain books of accounts after the implementation of GST, a chi-square test is conducted by taking the null hypothesis as, 'the various categories of hoteliers do not significantly differ in their opinion on whether there is difficulty in maintaining different books of accounts under GST.

Since the calculated value (29.99) is greater than the table value (3.841) at 1 degree of freedom and at 5% level of significance, the null hypothesis is rejected and it is concluded that the various categories of hoteliers dealing in different businesses significantly differ in their opinion on difficulty in maintaining different books of accounts under GST.

Delay in getting refund of input tax credit:

Table 7.7: Delay in getting refund of input tax credit in GST

Type of Hotels	Yes		No Opinion		No		Total
	No	%	No	%	No	%	
Small Budget Hotels	3	15	16	80	1	5	20
Medium range Hotels	1	5	19	95	0	0	20
Luxury Hotels	2	10	16	80	2	10	20
Total	6	10	51	85	3	5	60

Source: Primary data

From the table it is interpreted that majority of the hoteliers have no opinion as to the delay in getting refund of input tax credit as they hadn't yet applied for the same at the time of data collection.

Problems in filing multiple returns:

The hoteliers are required to file various returns viz. GSTR-1, GSTR-2, GSTR-3 and GSTR-3B monthly while GSTR-9 needs to be filed annually. The hoteliers were asked whether they faced any issues in filing multiple returns.

Table 7.8: Problems in filing multiple returns in GST

Type of Hotels	Yes		No		Total
	No	%	No	%	
Small Budget Hotels	19	95	1	5	20
Medium range Hotels	17	85	3	15	20
Luxury Hotels	15	75	5	25	20
Total	51	85	9	15	60

Source: Primary data

From the table it is interpreted that majority of the hoteliers faced difficulty in filing multiple returns under GST.

Compliance Issues in GST:

The introduction of GST required hoteliers to upgrade their software's in computers, hire experts and train their personnel in facilitating the transition to the new system. This would have resulted in an increase in compliance

cost for the hoteliers. Hence the third objective was framed as to assess whether there is any increase in the compliance cost on the implementation of GST.

Additional Cost in upgrading software:

Table 7.9: Additional Cost in upgrading software

Type of Hotels	Yes		No		Total
	No	%	No	%	
Small Budget Hotels	11	55	9	45	20
Medium range Hotels	16	80	4	20	20
Luxury Hotels	19	95	1	5	20
Total	46	76.67	14	23.33	60

Source: Primary data

From the table it is interpreted that majority of the hoteliers faced additional cost in upgrading their software in compliance with GST requirements.

Hiring of experts for facilitating GST transition:

Table 7.10: Hiring of experts

Type of Hotels	Yes		No		Total
	No	%	No	%	
Small Budget Hotels	6	30	14	70	20
Medium range Hotels	13	65	7	35	20
Luxury Hotels	17	85	3	15	20
Total	36	60	24	40	60

Source: Primary data

From the table it is interpreted that majority of the hoteliers hired experts for facilitating the transition to GST.

Training of personnel for facilitating GST transition:

Table 7.11: Training of personnel for GST transition

Type of Hotels	Yes		No		Total
	No	%	No	%	
Small Budget Hotels	7	35	13	65	20
Medium range Hotels	14	70	6	30	20
Luxury Hotels	19	95	1	5	20
Total	40	66.67	20	33.33	60

Source: Primary data

From the table it is interpreted that majority of the hoteliers provided training to their personnel in order to facilitate the transition to GST.

CONCLUSION:

The Goods and Service tax system was introduced in India to remove the defects in the indirect tax system and to have a common market across the country. The introduction of GST rates in hotels was initially met with resistance from the hoteliers. However after the revised rates was implemented w.e.f. Nov 15, 2017, 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, it is expected that in the long run GST will prove beneficial and make the dream of “One Nation One Tax” come true.

REFERENCES:

- All About GST in India (2016, October 6). Retrieved from <http://www.ey.com/in/en/services/ey-goods-and-services-tax-gst>
- Chaurasia, Pradeep (2016). Role of Good And Service Tax In The Growth Of Indian Economy. *International Journal of Science Technology and Management*, 5(2). 152-157.
- Dhanuka, Saloni. (2018, July 23). GST: Hotel Industry Lauds GST Relief But Divided On Impact. *Bloomberg Quint*. Retrieved from <https://www.bloombergquint.com/gst/gst-hotel-industry-lauds-gst-relief-but-divided-on-impact#gs.EuIO2UE>
- GST from April 1, 2017, says Nirmala Sitharaman. (2016, October 3). Retrieved from <http://www.gstindia.com/gst-from-april-1-2017-says-nirmala-sitharaman/>
- Impact of GST on Hospitality Industry. (2018, June 12). Retrieved from <https://cleartax.in/s/impact-of-gst-hospitality-industry>.
- Impact of GST on Indian Hospitality Sector (2017, July 03). Retrieved from <https://www.hotelogix.com/blog/2017/07/03/impact-gst-indian-hospitality-sector/>
- Nithin, Kumar. (2014). Goods and Services Tax in India-A Way Forward. *Global Journal of Multidisciplinary Studies*, 3(6).
- Pandey, Sony. (2017, October 10). Impact of GST on Hospitality Industry. Retrieved from <https://www.hrblock.in/blog/impact-gst-hospitality-industry/>
- Patrick, M. (2016, August 9). *The Kochi Post*. Retrieved from <http://www.kochipost.com/2016/08/09/all-eyes-on-gst-how-will-keralabenefit/>.
- Pinky, Supriya. Kamna. (2014). Goods and Services Tax-Panacea for Indirect tax System in India. *Tactful Management Research Journal*, 2(10).
- Rao, M. G. (2014, August 25). GST in India: Challenges and prospects. *Live Mint*. Retrieved from <http://www.livemint.com/Opinion/FtsFwtT50bMOc9HjHJOLJ/GST-in-India-Challenges-and-prospects.html>
- Report on Hotels and Restaurants in Kerala (2014-15). Directorate of Economics and Statistics, Thiruvananthapuram
- Sharma, Anitha. (2017, September). GST-Finally Implemented. *International Journal of Engineering Technology Science and Research*, 4(9). 989-994.
- Verma, S. (2016, August 4). GST Bill: Low rate of 18% to reduce taxes on goods, but services may turn costly. *The Indian Express*, Retrived from <http://indianexpress.com/article/business/economy/low-gst-rate-of-18-to-reduce-taxes-ongoods-but-services-may-turn-costly-2952660/>
