



A STUDY OF IMPACT OF GST ON TOURISM & HOSPITALITY INDUSTRY IN PUNE CITY

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Abstract: Hospitality & Tourism is one of the most competitive and steadily growing industry in the country. With the motto "Atithi Devo Bhava" (the guest is equivalent to God) Indian tourism industry was expected to reap great benefits under the GST regime. Research study called "India 2019 Annual Research", shows that travel and tourism in India contributed 9.2% of the GDP and provided 42.7 million jobs or 8.00% of the total employment. Total contribution by travel and tourism sector to Indian GDP is expected to increase to US\$ 275.2 billion in 2025. Hospitality and tourism is also the third largest foreign exchange earner for India. Indian tourism sector is one of the industries, where, multiple taxes are levied. The sector was expecting some relief in the new tax regime of Goods and Services Tax (GST). Goods and Services Tax (GST) is an indirect tax which was introduced in India on 1 July 2017 and was applicable throughout the country which replaced multiple cascading taxes levied by the central and state governments. Apparently, it can be perceived that, instead of providing relief, it has made growth prospect challenging. However, academicians and industry experts do believe that, inflation in the price of tourism, would be a temporary phenomenon and in the longer run, the prices would go down, and GST would be beneficial to the sector. This research paper is an attempt to put forth, both the perceptions and the facts about Tourism & Hospitality industry after 3 years of GST implementation.

Key Words: GST, Hospitality Industry, Tourism Sector.

Article History

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Introduction

Indian Tourism sector is one of the great contributors to the economy. Tourism & Hospitality in India plays a crucial role in economic growth due to various reasons such as employment creation, great contributor to national income, bringing in the foreign exchange etc. Moreover, its multiplier impact gives impetus to overall economy. Hence, ideally, Indian policy makers should make all sorts of efforts to boost this sector, by providing conducive environment in terms of infrastructure such as good roads, friendly taxation policy, safety and security of tourists in general. However, in reality, it can be seen that, various taxes are imposed on this sector at various stages. It creates hurdles in growth of this sector. In order to get relief, especially in taxation, the entire industry was expecting lower slabs of Goods and Services Tax (GST). But in reality, GST has been levied in the bracket of 5% to 28% in this sector. Stake holders of the industry are quite unhappy about it and fear that, such rate may halt the growth of the sector. An academician echoes in other way and positively say that, negative impact of such rate would be in the shorter run, but the scenario may change in the longer run. This research paper is an attempt to put forth detailed response of Tourism & Hospitality Industry for tax changes made under GST after 3 years of GST implementation.

Need for study

GST implementation is a major exercise in India since 2017. This is one of the important national agenda and received a fair share of attention from academicians, tax experts, consultants, business community, consumer bodies as well as the wider public. One of the major reasons for this study is to ascertain impact of GST implementation on Tourism & Hospitality Industry & buying behavior of end customers in this industry.

Following points underlines the need for systematic study in this area.

- Effectiveness of implementation of GST in Tourism & Hospitality industry has received mixed reviews from market experts & tax professionals. Critical study is required to understand short term demerits vs long term benefits of GST implementation.
- End customer, who owns the burden of inflation, is not aware about complete structure of GST & how it will affect the common man.
- GST is a uniform tax across the country. However it's replacing all state specific old taxes & hence region wise detailed study is required to analyze effectiveness of GST implementation in specific region.
- GST, being the biggest indirect tax reform, has to face some implementation challenges. It is therefore required to assess economic benefits of GST for Tourism & Hospitality industry against short term implementation challenges.

Objectives

The objectives behind the research are

- 1 To analyze impact of GST on consumer buying behavior in Tourism & Hospitality Industry.
- 2 To understand consumer perception & knowledge level toward GST.
- 3 To understand impact of GST on Indian economy with special reference to Tourism & Hospitality Industry.



- 4 To find out difference between previous indirect taxes and GST.
- 5 To identify benefits and challenges of GST after implementation.

Research Scope

This research will explore changes in consumer behavior & impact on following selected areas of Tourism & Hospitality Industry.

- Impact of GST on rates/ prices for Room Tariff Based Hotels.
- Impact of GST on rates for restaurants
- GST rates for transportation.
- Analysis of impact of GST on Hospitality Ancillary Industries
- Changes in consumer behavior for tourism & hospitality industry.

Geographical scope of this research is regions in Pune city.

Research Gap

The prior literature discusses GST as a concept and illustrates its benefits theoretically. Empirically, the impact of GST on economic growth, inflation can be analyzed. The present study attempts to fill this research gap by empirically examining the economic impact of GST on the Tourism & Hospitality area in Pune city. The study also provides a comprehensive view of GST implementation in Hospitality industry, prices of hotels & restaurants & also analyze the impact on Tourism ancillary industries.

Literature Review

GST is considered as an indirect tax for the whole nation that would make India one unified common market. It is a tax which is imposed on the sale, manufacturing and the usage of the goods and services. It is a single tax that is imposed on the supply of the goods and services, right from the manufacturer to the customer.

It is charged at the national and state level at similar rates for the same products and it also replaces almost all the current indirect taxes that are imposed separately by the Centre and the States. Goods & Services Tax is a destination-based tax which means that the tax is paid at the place of supply.

Dr. R. Vasanthagopal (2011) studied, "GST in India: A Big Leap in the Indirect Taxation System" and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.

Chaurasia et al. (2016) Studied, "Role of Goods and Services Tax in the growth of Indian economy" and concluded that overall GST will be helpful for the development of Indian economy and this will also help in improving the Gross Domestic Products of the country more than two percent.

Ehtisham Ahmed and Satya Poddar (2009) studied, "Goods and Service Tax Reforms and Intergovernmental Consideration in India" and found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.

The hospitality and tourism industry is one such sector in the economy that is deliberating over the new tax regime. Hospitality is one of the most competitive and steadily growing industries in the country. The tourism industry contributes nearly \$136 billion to India's GDP and is expected to further grow to US\$ 280.5 billion by 2026. Hospitality and tourism are also among the highest employment generating sectors and among the top 10 sectors in the country with the highest volume of foreign direct investment. In addition to being one of the top sources of foreign exchange, tourism is also among the highest tax generating sectors in the country

Tourism & Hospitality Industry- Tax prior to GST

Under the previous VAT regime, the hospitality sector was paying multiple taxes like service tax, luxury tax, and VAT. A room hotel with a tariff more than Rs 1000 used to come under service tax of 15%. On the tariff value, 40% abatement was allowed pulling down the service tax rate to 9%. The applicability of luxury tax and VAT (12-14.5%) would be on the head. In the same way, service tax for restaurants after abatement was 6%, including VAT.

Impact of GST on Tourism & Hospitality Services

Under the reasonable GST regime for the hospitality industry, this sector is witnessing more demand as well as traction. As the final cost to the customer is declining, more international tourists are on the card for the hospitality industry. Eventually, it would perk up government revenue. The hospitality sector will be making the most out of standardized rates of tax. Furthermore, it would adequately utilize the ITC. This tax regime ensures the unparalleled growth of the hospitality sector in the future course of time. There was a time when complementary foods were taxed distinctly under the value-added tax, but now it would get taxed under GST as a clustered service.

GST rates for Room Tariff Based Hotels

- If the one-night tariff of a hotel is less than Rs 1000, No GST rate will be applicable.
- If the one-night tariff of a hotel is somewhere between Rs 1001 and Rs 7500, the GST rate applicable will be 12%.
- If the one-night tariff of a hotel is Rs 7501 or exceed Rs 7501, the GST rate applicable will be 18%.

GST Rates for Restaurants



The restaurant industry has seen some upheaval since the GST launched in 2017. At first, the tax rates were set at 18% for restaurants with air conditioning or liquor licences, and 12% for other restaurants. At that time, you could also use the input tax credit to offset your tax bill.

In November of 2017, the GST Council changed the GST rates for restaurants. In a restaurant located inside a hotel where rooms are priced at Rs 7,500 or higher, tax rate stayed at 18%, and you can still use the ITC. If you run any other type of restaurant, however, your tax rate is 5%, with no ITC benefit. This should result in lower food bills, but without the ITC, you may need to build up greater cash reserves before buying new equipment or expanding your business.

GST Rates for Transportation

The GST's effect on the transportation sector has been minor, with most areas seeing small changes. Air travel tax rates depend on the flight class.

For travelers taking economy-class flights, the tax rate dropped from 6% before GST to 5% after GST. Taxes on business-class flights rose from 9% to 12%. If you're traveling by bus or non-AC trains, you don't need to pay GST, as these services are exempt. For first-class trains and air-conditioned cars, the tax rate rose slightly from 4.5% to 5%. Taxes on taxis dropped from 6% to 5%. For many businesses in the tourism industry, the GST law stands to lower prices and bring in more customers.

Limitations

- The sample drawn for this survey was from the Pune city. Therefore, the results hereby obtained may not be applicable to a wider population.
- The sample size was of 200 respondents for the population of the Pune City of selected area.
- Data analysis is completely based on response given by respondents.
- This survey was conducted between period of November 20 to January 21 in Pune city. Conclusions & findings of this research are specific to this period and applicable for Pune city only. Findings may vary region wise & period wise.

Research Design and Methodology

Research methodology is considered as the nerve of the project. Without a proper well-organized research plan, it is impossible to complete the project and reach to any conclusion. The project was based on the survey plan. The main objective of survey was to collect appropriate data, which work as a base for drawing conclusion and getting result. Therefore, research methodology is the way to systematically solve the research problem. Research methodology not only talks of the methods but also logic behind the methods used in the context of a research study and it explains why a particular method has been used in the preference of the other methods.

Sampling Design:

Universe:

All the people whose age group was above 25 years were comprised of universe. An optimum size of 200 was decided as sample size which was neither excessively large nor too small. The sample size was large enough to give a confidence interval of desired width.

Sampling Unit:

Here unit belonging to the people whose age group is above 25 were treated as sample unit.

Sampling Frame:

Selected areas of Pune City like Dhayari, Sinhgad Road, Sadashiv Peth and Ravivar Peth is considered as sample frame.

Data collection sources:

The researcher collected primary and secondary data for the purpose of the study. The sources for collection of these data are as follows

Type of Data Used:

Both primary as well as secondary data was used. Primary data was gathered by the means of interviewing the respondents with the use of questionnaire that the researcher prepared. A structured questionnaire was used for data collection which was a mixture of open ended,

multiple choice questions and closed ended questions. The words were simple and helped in avoiding confusion and misunderstanding among the respondents.

Data Analysis & Interpretation: Data Analysis of response obtained from customers, investors & industry persons was done after conducting a survey with the sample size of 200. The questionnaire containing 25 questions was prepared to obtain the desired information and the method of personnel interview was also adopted for those dealers who were not interested in filling the questionnaire.

Tools of Data Analysis and Interpretation:

Percentage Analysis, Graphical Analysis-pie charts, bar diagrams, Tabular Analysis

Table1: Do you think Implementation of GST in Tourism & hospitality industry results in increased tariffs for Hotels &

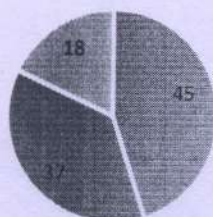


Restaurants.

Sr. No	Response	Response In Numbers
1	Yes	90
2	No	74
3	No Idea	36

Graph 1: Perception for GST in Hospitality & Tourism Industry.

GST Results in increased tariffs for Hotels & Restaurants



■ Yes ■ No ■ No Idea

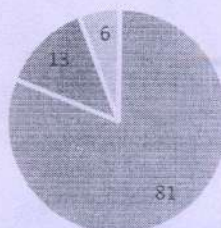
Table 2: Do you think GST will lead to easier administration & simplified procedures for business

Sr. No	Response	Response In Numbers
1	Yes	162
2	No	25
3	No Idea	13

Easier administration and procedures under GST: 81% of the sample population believes that by subsuming multiple taxes under a single category, GST will abolish the tax-on-tax structure, which will reduce the complexity of taxation procedure and administration.

Graph 2: GST Procedures & Administration

Easier Administration & Simplified Procedures Under GST



■ Yes ■ No ■ No idea

Table 3: Do you think GST will increase technological burden on business

Sr. No	Response	Response In Numbers
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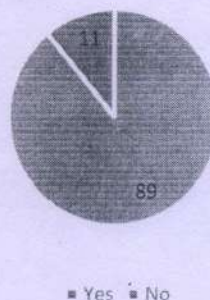


1	Yes	89
2	No	11

Greater technological burden: From the survey it is found that 89% of respondents feel that, there are a few cons that are hard to overlook. One of them is increased burden on service providers to employ technology-based tools for taxation procedures. While the guidelines on managing accounts and filing returns are well-defined, it will require businesses to become technologically adept, increasing the burden and cost of compliance.

Graph 3 : Technological Burdon on Business

Technological Burdon on Business



Findings of Research

1. GST has clearly changed the perception of people for Hospitality & Tourism industry. Increased rate of GST for luxury hotels forced people to think about other budget hotels or alternative options for accommodation & stay.
2. This Study also observed that common people are not fully aware about detailed changes that GST made in this sector. Especially the difference in tax rate based on category of hotel or restaurant.
3. GST has eliminated multiplicity of taxes in the tourism sector & hence taxes are more rationalized and reduced. Government is looking forward to increasing the inbound tourists which would result in getting a bigger chunk of foreign exchange earnings. International tourism not only generates government revenue but will also lead to generate employment opportunities in the travel and tourism industry.
4. MICE industry will be terribly hit because convention and conferences facilities are only available in 5-star hotels. These 5-star hotels charge room rates of Rs. 7500 or above on which GST is charged in upper range of 18%. GST rates on tourism industry should be to focus on promoting tourism and to strengthen foreign exchange from this sector.
5. Transparency for Consumers: Implementation of GST will be more transparent as hotel customers will see the only single charge on bills. One tax gives the customer a better idea regarding the cost they are paying for the services and products they used. Ambiguities of the current indirect tax landscape, and hence advantageous to the economy as a whole.
6. Time Saving and Improved Quality: The elimination of a lot of entries from the hotel's book of accounts in the name of various taxes means lesser time to process a transaction. This also means that the consumer gets their orders faster and fresher and room reservations become an easy procedure.
7. Attract more Inbound Tourists: GST will reduce final cost to the end user. By doing so India can expect to attract more international tourists than before.
8. Increase in Forex Earnings: When there is an increase in Inbound Tourists this would increase India's Foreign Exchange Earnings which result in improved revenues for the government.
9. Lack of Parity with neighboring Countries: India has the potential to attract inbound tourist but due to higher tax rates it is losing in global high ranking. Countries like Japan and Singapore charges taxes @ 8% and 7% respectively for their hospitality sector and attract more inbound tourists comparatively than India. Implementation of GST in India is a new tax structure to reduce the tax rates but they are still higher if we compare it with competitor countries in the international market. Countries like Myanmar, Thailand, Singapore, and Indonesia range between 5-10 percent which is lower than India.

Conclusion:

GST is more than just a tax reform, it's a new culture of honesty. GST has become a historic achievement & is a perfect example of the collective strength of the Indian economy. GST reform is of national interest & creating an environment that is business friendly & tax friendly. Tourism sector plays a significant role in the forex earnings of India. In indirect tax system. Taxes levied on inbound tourism is amongst the highest in India. Through Inbound Tourism we can create a significant amount of foreign exchange which is



required to strengthen the Indian economy. GST is the solution for that.

Prior to GST Indian Economy was characterized by the presence of an unclear indirect tax structure leading to the biggest hindrance to investors and industries willing to do business in India. It was hampering the development of the industries including Hospitality industry and contradicts the National Program of 'Make in India'. GST as an initiative taken by the Government of India, is expected to increase the degree of trustworthiness for investors on Indian socio-economic scenario. It would make Indian goods and services more competitive in both domestic and global markets. GST would help in boosting growth of Hospitality & Tourism industry because of its transparency, easy administration and self-policing character. To conclude GST is much awaited & promising tax reform needed to build an investor-friendly or business friendly tax-environment in India.

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