

GOODS AND SERVICES TAX (GST) AND ITS IMPACTS ON HOTEL INDUSTRY IN SOUTH TAMILNADU

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Abstract

GST (Goods and Service Tax) is a non-discriminatory tax, and its effect will be seen across verticals. In this article, we will look at the effects of the new tax on the Hotel industry. Before the implementation of GST hotel Industry has paid lot of Indirect taxes such as VAT, Luxury Tax, Service Tax, service charges etc. After GST came into effect all these taxes ceased to exist. It has both positive and negative impact on hotel industry. This paper is designed to provide an overview of positive and Negative impact of GST implementation in Hotels in South Tamil Nadu. Among 300 Hotels and Restaurants in South Tamil Nadu a random sampling of 256 has been selected. The analysis has been done using SPSS and Warp PLS5.0. A proposed research model was developed and the appropriate factors and variables were identified such as Administrative Ease, Clarity for consumers, Time savings and improved Quality, Technological Burden, Possibility of Increased cost and Competition.

Keywords: Goods and Service Tax (GST), Hotel Industry, Indirect Taxes, Positive and Negative Impact.

Introduction

What is GST?

GST is one indirect tax for the whole nation, which will make India one unified common market. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. **(Source: gstindia.com)**

Implementation of GST in India

The introduction of the Goods and Services Tax (GST) is a very significant step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, GST will mitigate ill effects of cascading or double taxation in a major way and pave the way for a common national market. From the consumers point of view, the biggest advantage would be in terms of reduction in the overall tax burden on goods, which is currently estimated to be around 25%-30%. It would also imply that the actual burden of indirect taxes on goods and services would be much more transparent to the consumer. Introduction of GST would also make Indian products competitive in the domestic and international markets owing to the full neutralization of input taxes across the value chain of production and distribution. Studies show that this would have a boosting impact on economic growth. Last but not the least, this tax, because of its transparent and self-policing character, would be easier to administer. It would also encourage a shift from the informal to formal economy. The government proposes to introduce GST with effect from 1st July 2017.

(Source: gstcouncil.gov.in)

Goods and Services Tax, a comprehensive indirect tax, would be the biggest reform in India's indirect tax structure to be levied on manufacture, sale and consumption of goods and services throughout India. To be implemented by April 2017 as stated in the 122nd constitutional amendment bill passed by Rajya Sabha on the 3rd August, 2016

Comprising of about seventeen indirect taxes like entry tax, luxury tax, service tax, excise tax, VAT, entertainment tax, Octroi, etc., GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer.

On the basis of the input tax credit methodology, the GST would be levied and further collected at each and every stage of the sale and purchase of the services and the goods. The Model GST law was issued on the 14th June, 2016 by the Ministry of finance comprising not only the Integrated Goods and Services Tax (IGST) and the state/Central Goods and Services Tax (CGST/SGST) but also the valuation of the GST. A revised draft of the GST released on the 26th November, 2016 comprises of the compensation law stating compensation to the states on the loss of the revenue on the implementation of the GST would be provided. It also consists of the Integrated Goods and Services Tax (IGST) and the Central/ State Goods and Services Tax (CGST/SGST). GST would be a taxation system possessing dual administration, the administration of the state as well as the center. The dual GST model would comprise of three types of taxation - Central Goods and Services Tax (CGST) and State Goods and Services Tax (SGST) for intra state transactions and IGST (Integrated GST) for Imports and intrastate transactions.

The proposed rate for GST is a four-tiered structure of 5%, 12%, 18% and 28%. The hotel industry has been pegged at an 18% rate. This, a lot of industry veterans have suggested, could be detrimental to the sector. The Hotel and Restaurant Association of Western India believes that a rate of 5% is more befitting.

This, however, is not to say that there is opposition to the introduction of GST. The industry is united in proclaiming it a welcome move because it also has many benefits to the industry. Below are the ways in which this new GST will affect the hotel industry, positively and negatively

Hotel Industry in India

The hotel industry that exists today can be traced back to 3000 B.C. where the earliest inns were homes with rooms provided for travelers. Conditions improved in 1700s England when the renaissance sparked the desire to travel. The United States saw its hotel industry created a century later. By this time they had revolutionized many firsts in the industry including private rooms with locks and doors, free soap, a trained staff, and a pitcher of water in each room. Indoor plumbing and the creation of the lobby followed shortly thereafter. The business of providing strangers with hospitable means has come a long way. What once was a service to fellow man is now the foundation numerous economies throughout the world.

The modern era of the hotel industry saw its beginnings in 1794 New York where the first ever hotel was built. Profit potential was recognized with the inception of the industrial revolution. Stock companies invested in hotels seeking profit from property value appreciation and room occupancy revenue. Surrounding communities were promised increase in sales by means of higher volume of people passing through., the industry creates a multitude of opportunities that now saturate the industry in the form of spin-offs of these top four hotel companies creating the most common chains we know of today. History has proven that the success of this industry has largely to do with two factors, location and innovative integration, the combination of these two has created a margin between the larger chains and those who operate on a smaller scale. Soap and locks on doors were the innovation for their day. Strategic placement and product differentiation once again guide the success of this industry.

The word hotel is derived from the French *hôtel* (coming from *hôte* meaning host), which referred to a French version of a townhouse or any other building seeing frequent visitors, rather than a place offering accommodation. A hotel is an establishment that provides paid lodging on a short-term basis. The provision of basic accommodation, in times past, consisting only of a room with a bed, a cupboard, a small table and a washstand has largely been replaced by rooms with modern facilities, including en-suite bathrooms and air conditioning or climate control. Additional common features found in hotel rooms are a telephone, an alarm clock, a television, and Internet connectivity; snack foods and drinks may be supplied in a mini-

bar, and facilities for making hot drinks. Larger hotels may provide a number of additional guest facilities such as a restaurant, a swimming pool or childcare, and have conference and social function services. Some hotels offer meals as part of a room and board arrangement.

Hotel Industry in India has witnessed tremendous boom in recent years. Hotel Industry is inextricably linked to the tourism industry and the Growth in the Indian tourism industry has fuelled the growth of Indian Hotel industry. The thriving economy and increased business Opportunities in India have acted as a boon for Indian hotel industry. The Arrival of low cost airlines and the associated price wars have given domestic tourists a host of options. The 'Incredible India' destination campaign and the recently launched 'Atithi Devo Bhavah' (ADB) campaign have also helped in the growth of domestic and international tourism and consequently the hotel industry. According to a report, Hotel Industry in India currently has supply of 110,000 rooms and there is a shortage of 150,000 rooms fuelling hotel room rates across India. According to estimates demand is going to exceed supply by at least 100% over the next 2 years. The future scenario of Indian hotel industry looks extremely rosy. It is expected that the budget and mid-market hotel segment will witness huge growth and expansion while the luxury segment will continue to perform extremely well over the next few years.

Literature Review

Poonam, 2017 in her study, she had cleared that GST would be a very important step in the field of indirect taxation. The cascading and double taxation effects can be reduced by combing central and state taxes. Consumer's tax burden will approximately reduce to 25% to 30% when GST is introduced. After introduction of GST concept, Indian manufactured products would become more and more competitive in the domestic and international markets. This taxation system would instantly encourage economic growth. GST with its transparent features will prove easier to administer. In this paper the author has tried to attempt to spot the concept of GST & its current status in India. Paper has tried to give information about GST system. The study also aims to be familiar with the advantages and challenges of GST in Indian scenario.

Kawle, et. al, reveals GST: An economic overview: Challenges and Impact ahead. Once the GST system is applied there would be single tax system which would record a significant development in comprehensive indirect taxation reform. Under the GST system there would be only one rate applicable for both goods and services. GST will create a business friendly environment, as prices will fall and it would also control the inflation rates.

Shakir Shaik et. al, explained "Does Goods and Services Tax (GST) Leads to Indian Economic Development? An attempt is made in this paper to study the concept of goods and service tax and its impact on Indian economy. The study also aims to know the advantages and challenges of GST in Indian scenario.

Sehrawat et.al, revealed in their paper "GST IN INDIA: A KEY TAX REFORM, This paper presents an overview of GST concept, explains its features along with its timeline of implementation in India. The paper is more focused on advantages of GST and challenges faced by India in execution.

Mahender in his paper titled GST Effect on Manufacturing Industry – India, Explained the positive and negative effects of GST on manufacturing industry in India.

Research Problem

The concept of Goods and Service Tax (GST) is one of the biggest Tax reforms in decades around the world. This research intends to focus on understanding the Impact of goods and service tax in Hostel Industry in Trichy City.

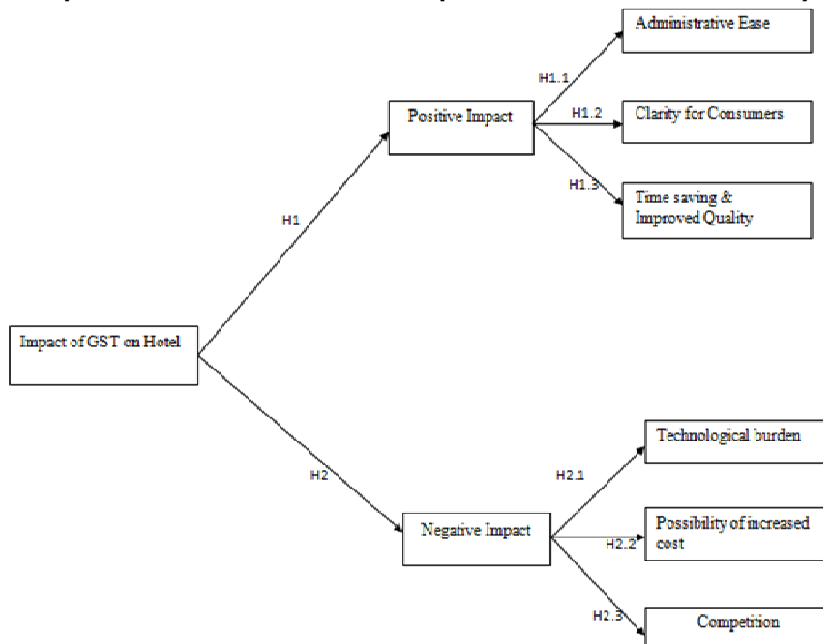
Research Objectives

1. To study the concept of Goods and service Tax
2. To find out the positive and negative impact of GST in Hotel Industry in Trichy city.

Research Design

This study focus on Primary data collected from various hotels in South Tamil nadu. Among 300 Hotels, a random sampling of 150 has been collected and analyzed using SPSS and WarpPLS5.0.

Proposed Research Model - Impact of GST in Hotel Industry



Analysis and Discussions

Cross tabulation & Chi square test

H₁: There is a Positive Impact of GST on Hotels in South Tamil Nadu.

H₂: There is a Negative Impact of GST on Hotels in South Tamil Nadu.

Table 1 Shows Positive Impact of GST on Hotel Category

| | | Hotel category | | | | Total |
|-----------------|-------------------|----------------|--------------|--------------|--------------|------------|
| | | Budget hotel | Luxury hotel | 3 star hotel | 4 star hotel | |
| Positive impact | Strongly disagree | 2 | 0 | 0 | 0 | 2 |
| | Disagree | 1 | 2 | 1 | 0 | 4 |
| | Neutral | 11 | 11 | 5 | 3 | 30 |
| | Agree | 29 | 38 | 29 | 7 | 103 |
| | Strongly Agree | 16 | 56 | 22 | 23 | 117 |
| Total | | 59 | 107 | 57 | 33 | 256 |

From the above table it is inferred that 29 out of 59 Budgeted Hotel, 29 out of 57, 3 star Hotel, 23 out of 33, 4 star Hotel, Agrees that GST has a positive impact. 56 out of 107 Luxury Hotels strongly agrees the Positive Impact of GST. Majority of the respondents agrees that GST has a positive Impact on their Hotels. Only very few respondents disagree the positive impact. Finally 117 out of 256 respondents strongly Agrees the positive Impact.

Table 2 Chi Square Test-Positive Impact of GST

| | Value | df | Asymp. Sig. (2-sided) |
|------------------------------|---------------------|----|-----------------------|
| Pearson Chi-Square | 27.105 ^a | 12 | .007 |
| Likelihood Ratio | 27.126 | 12 | .007 |
| Linear-by-Linear Association | 10.842 | 1 | .001 |
| N of Valid Cases | 256 | | |

a. 9 cells (45.0%) have expected count less than 5. The minimum expected count is .26.

From the above table it is inferred that the arrived significant value (0.007) is less than 0.05, hence the alternate Hypothesis H₁ is accepted Therefore There is a positive Impact of GST on Hotels in South Tamil Nadu.

Table 3 Shows Negative Impact of GST on Hotel Category

| Negative Impact * Hotel category Cross tabulation | | | | | | |
|---|-------------------|----------------|--------------|--------------|--------------|------------|
| | | Hotel category | | | | Total |
| | | Budget Hotel | Luxury Hotel | 3 star hotel | 4 star hotel | |
| Negative Impact | Strongly disagree | 3 | 13 | 3 | 1 | 20 |
| | Disagree | 9 | 20 | 12 | 3 | 44 |
| | Neutral | 4 | 14 | 4 | 3 | 25 |
| | Agree | 14 | 26 | 17 | 14 | 71 |
| | Strongly Agree | 29 | 34 | 21 | 12 | 96 |
| Total | | 59 | 107 | 57 | 33 | 256 |

From the above table it is inferred that 29 out of 59 Budgeted Hotel, 34 out of 107 Luxury Hotel, 21 out of 57, 3 star Hotel, 12 out of 33, 4 star Hotel, strongly Agrees that

GST has a Negative impact. Majority of the respondents strongly agrees that GST has a Negative Impact

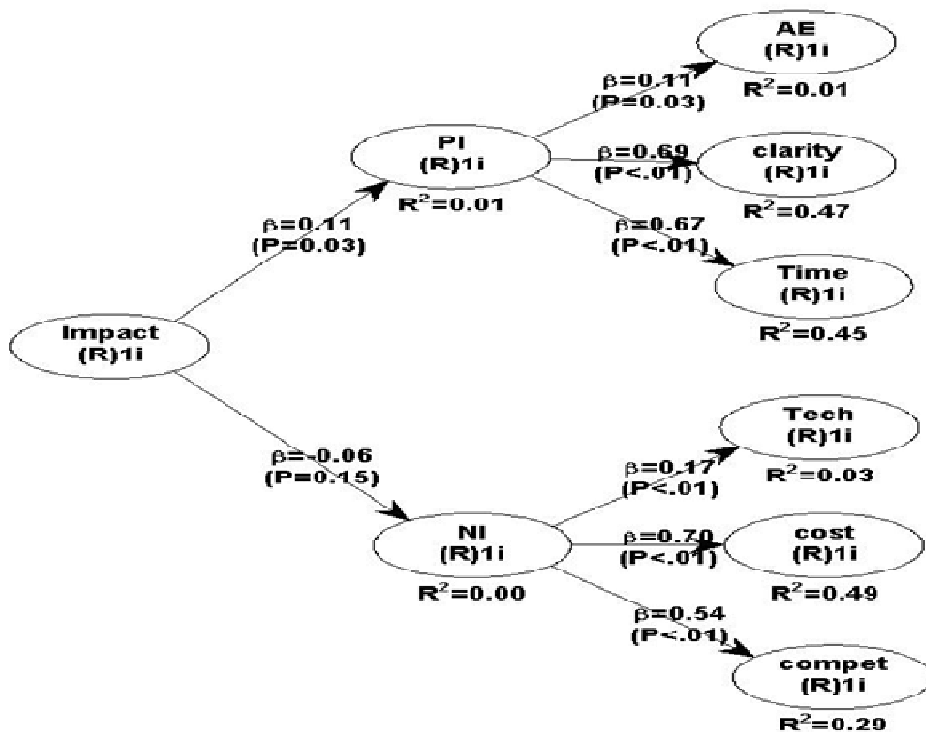
Table 4 Chi Square Test Negative Impact of GST

| Chi-Square Tests | | | |
|------------------------------|---------------------|----|-----------------------|
| | Value | df | Asymp. Sig. (2-sided) |
| Pearson Chi-Square | 15.346 ^a | 12 | .223 |
| Likelihood Ratio | 15.169 | 12 | .232 |
| Linear-by-Linear Association | .067 | 1 | .796 |
| N of Valid Cases | 256 | | |

a. 4 cells (20.0%) have expected count less than 5. The minimum expected count is 2.58.

From the above table it is inferred that the arrived significant value (0.223) is greater than 0.05, Hence the alternate Hypothesis H_2 is rejected, Therefore There is no Negative Impact of GST on Hotels in South Tamil Nadu.

WarpPLS5.0 Analysis



From the above WarpPLS5.0 Structural Equation Model the P values for all the variables are less than 0.05 Except Negative Impact Factor .Hence the model is fit to perform Regression Analysis except Negative Impact.

Therefore all the Positive Impact factor Variables such as Administrative Ease, Clarity for consumers, Time and Improved quality has significant Impact on Hotels in South

Tamil Nadu. And the Negative Impact factor such as Technological Burden, Possibility of Increased cost and competition has less significant.

Suggestion and Conclusion

GST is one of the biggest Tax reforms in decades around the world. No research has been conducted in this area. This research intends to focus on understanding the Impact of goods and service tax in Hostel Industry in South Tamil Nadu. Finally Most of the Budgeted, Luxury, 3-star & 4-star Hotels agrees that Implementation Goods & Service Tax By central Govt has strong Positive Impact and Less Negative Impact on their Hotels. Hence from this study, It is concluded that GST has Positive Impact on Hotel Industry In South Tamil Nadu.

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