

**A STUDY ON IMPACT OF GST ON VARIOUS ASPECTS OF
RESTAURANT AND HOTEL BUSINESS IN GUJARAT.**

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Abstract

The introduction of the Goods and Services Tax (GST) in India has brought transformative changes to the country's taxation system, significantly influencing various sectors, including hospitality. This study examines the impact of GST on the restaurant and hotel business in Gujarat, a key hub for tourism and hospitality. The research explores key areas such as pricing strategies, tax compliance, operational efficiency, and consumer behaviour. Using qualitative and quantitative data, the study identifies both opportunities and challenges faced by businesses under the GST regime. The findings provide insights into the extent to which GST has streamlined operations and affected profitability in the hospitality sector, offering valuable implications for policymakers and industry stakeholders. This primary data-based study tries to measure the end impact of Goods and Services tax on various aspect of such business from the view point of restaurant and hotel owners in Ahmedabad.

Key words: Goods and services tax, Compliance cost, Hotel and Restaurant Business

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1. Introduction of GST:

The term "tax" is derived from the Latin word "taxo" or "taxare," which signifies the evaluation or appraisal of something valuable. Taxes are financial obligations levied by governing authorities to fund public services, infrastructure, and other developmental activities, forming the cornerstone of a government's revenue generation. They enable trade, support governance, and serve as an essential mechanism for economic regulation. A sound taxation framework is pivotal for a nation's economic development, as it ensures efficient resource allocation, promotes equitable wealth distribution, and stabilizes the economy. A well-structured taxation system not only drives GDP growth but also fosters societal well-being by enhancing the productivity and happiness of citizens.

Taxes are broadly categorized into direct and indirect taxes. Direct taxes, such as income tax, are paid directly by individuals or entities based on their income, wealth, or property ownership. Indirect taxes, like service tax or GST, are imposed on goods and services but are ultimately borne by the end consumer, with businesses acting as intermediaries. Both forms of taxation are integral to achieving fiscal goals, though their implications and efficiencies often differ.

The implementation of the Goods and Services Tax (GST) in India in 2017 marked one of the most significant reforms in the country's taxation history. GST replaced a complex web of indirect taxes, including VAT, service tax, and excise duty, with a unified system to simplify tax administration, reduce compliance burdens, and promote the ease of doing business. Its objective was to create a single, transparent tax system that would eliminate cascading taxes, thereby reducing the overall tax burden on consumers and stimulating economic activity.

The hospitality industry, particularly restaurants and hotels, has been significantly affected by GST. In Gujarat, a state recognized for its robust tourism and hospitality sector, the impact of GST provides an insightful case study. The tax has reshaped pricing strategies, compelling businesses to adjust to new rate structures that combine central and state levies. While GST

has eliminated the earlier complexities of multiple taxes, it has introduced stringent compliance requirements, necessitating investments in technology, staff training, and accounting systems. Operational efficiency has also been impacted, with businesses needing to adapt to standardized tax slabs that may not align with their previous pricing models or cost structures.

Consumer behaviour has also shifted under the GST regime. The clarity and transparency of GST-included pricing have been welcomed by consumers, but increased costs, particularly in premium services, have caused some friction in spending patterns. For instance, the input tax credit mechanism under GST, which allows businesses to claim credit for taxes paid on inputs, has incentivized operational efficiency but has not been extended to restaurants without liquor licenses, creating disparities within the sector.

Moreover, the broader implications of GST on the economic sustainability of the hospitality industry warrant critical reflection. While the simplified taxation system has fostered greater compliance and reduced tax evasion, the high GST rates on luxury services have posed challenges for high-end hotels, potentially dampening demand. On the other hand, budget hotels and mid-range restaurants have benefited from lower tax brackets, attracting a wider consumer base.

This research seeks to examine these dynamics in detail, focusing on how GST has influenced the growth, operational sustainability, and consumer engagement within Gujarat's hospitality sector. By analyzing pricing strategies, compliance demands, and broader economic impacts, the study contributes to the ongoing discourse on tax policy and its role in shaping industry landscapes and economic outcomes.

2. Review of Literature

(Das, 2023) investigate the impact of Goods and Services Tax on the hotel business and the perception of their customers regarding the Goods and Services tax. The study aims to examine the perception of customers of hotels regarding Goods and Services Tax and to evaluate the impact of GST on Restaurant business and their customers. The study is based on primary as well as secondary data. Primary data were collected through interviews with 120 consumers of hotel and restaurant businesses located in Odisha by using the convenience sampling method. The study found that as per the opinion of consumers of hotel and

restaurant business, the common man's tax liability has increased due to GST, however majority of them are satisfied due to simplification in the tax system and decreased tax rate bracket. The study also found that there is a significant difference in consumers' perceptions concerning their gender.

(Chhikara & Ahlawat, 2023) evaluates the impact of GST on Quick Service Restaurants through the viewpoint of their owners or managers. The study is based on primary data and is descriptive. For the study purpose, 70 Quick Service Restaurant's data were collected with the help of a questionnaire in Delhi NCR. The collected data were analysed with the help of a t-test, ANOVA, and exploratory factor analysis. The study concluded that GST had both positive and adverse effects on Quick Service Restaurants in Delhi NRC as well as customers have mixed feelings towards it.

(Rajgor, Rakshit, & Sain, 2023) examine the impact of Goods and Services Tax on the hospitality industry based in Navi Mumbai. The study aimed to measure the impact of Goods and Services Tax on the hospitality sector and determine the challenges and role of authority in implementing GST. The study was based on primary data and the researcher used a mixed research design. The primary data were collected through in-depth interviews and with the help of online and offline questionnaires. The sample includes 900 customers, 50 hotel managers, and hotel officials. For data analysis, SPSS 20 was used. The study suggests that government should think about the problems of GST and proper and effective information should be there to help the public.

(Kumari, 2022) studied the impact of Goods and Services Tax on the hotel sector. The study is descriptive and based on primary data which were collected through a questionnaire with a sample size of 30 respondents. The study concludes that GST is advantageous for budget hotels that come under the 12% tax slab but it is disadvantageous for those hotels which are come under the slab of 18% to 28% tax slabs. The study suggests that customer satisfaction level and customers' buying behaviour are highly correlated. The study also mentions that GST has brought clarity for customers regarding tax and tax rates and their consumption has also increased after the GST overall it will increase the government tax revenue and also provide various employment opportunities in such sectors.

(Grace, Jemima, Pearl, & Ferusha, 2022) Investigate the attitude of patrons regarding the Goods and Services Tax within India's restaurant sector. The study examines the demographic features of customers, their perception of how the GST would affect eateries,

and the relationship between customer perception and age. The research study examines the influence of GST on consumer behaviour and the restaurant industry specifically focusing on the notable variations in perceptions across gender and age cohorts. Furthermore, it examines the benefits of GST for customers including its streamlined tax framework and decreased tax rates.

(Mirchandani & Japee, 2020) analysed the impact of indirect tax GST on the hotel industry in Ahmedabad city. The study aimed to find the impact of GST on such an industry, to observe customer satisfaction, to evaluate their buying behaviour, and to find out whether there is any co-relation between the clarity of customers and various issues faced by them due to Goods and Services tax. The study is based on primary data which were collected from 22 hotels located in Ahmedabad by structure questionnaire through convenience sampling method. For data analyses, the Chi-square test was used. The study indicates that the clarity of customers about GST and the issues faced by them are highly co-related. The study also mentions that GST has brought clarity for the customers and customer satisfaction and their buying behaviour are also correlated. Overall GST will increase the consumption of customers which will increase government revenue and employment opportunities in such sectors will also increase.

3. Research Methodology

3.1 Objective of the study

The objective of research is to find out the impact of Goods and Services tax on various key aspects of hotel and restaurants business located in Gujarat.

3.2 Types of Data

The present study is based on primary data.

3.3 Method of Data Collection

For the study purpose primary data has collected through the structured questionnaire.

3.4 Sampling Size and Method

For the research purpose researcher has structured questionnaire containing various factors which can be affected by GST. Researcher collected data of 500 hotel and restaurant owners of Gujarat from 5 cities Ahemdabad, Vadodra, Surat, Anand and Nadiad through structured questionnaire.

3.5 Data Analysis Tool

For the data analysis SPSS software and MS excel used.

4. Data Analysis

4.1 Impact of GST on various aspects of Restaurant and Hotel Business in Gujarat.

No.	Particular	Very Positive	Positive	Neutral	Negative	Very Negative
1.	Sales/Revenue	98 (19.6%)	77 (15.4%)	173 (34.6%)	89 (17.8%)	63 (12.6%)
2.	Purchase	53 (10.6%)	118 (23.6%)	167 (33.4%)	122 (24.4%)	40 (8.0%)
3.	Profit	50 (10.0%)	99 (19.8%)	199 (39.8%)	94 (18.8%)	58 (11.6%)
4.	Production Cost	10 (2.0%)	58 (11.6%)	235 (47%)	160 (32%)	37 (7.4%)
5.	Service cost	4 (0.8%)	62 (12.4%)	257 (51.4%)	146 (29.2%)	31 (6.2%)
6.	Raw Material Cost	3 (0.6%)	32 (6.4%)	194 (38.8%)	217 (43.4%)	54 (10.8%)
7.	Compliance Cost	41 (8.2%)	138 (27.6%)	98 (19.6%)	178 (35.6%)	35 (9.0%)
8.	Record Keeping	57 (11.4%)	162 (32.4%)	203 (40.6%)	47 (9.4%)	31 (6.2%)
9.	Accounting Procedure	99 (19.8%)	170 (34.0%)	124 (24.8%)	65 (13.0%)	42 (8.4%)
10.	Requirement of Working Capital	51 (10.2%)	57 (11.4%)	136 (27.2%)	172 (34.4%)	84 (16.8%)
11.	Hotel Restaurant Bill	4 (0.8%)	185 (37.0%)	132 (26.4%)	157 (31.4%)	22 (4.4%)
12.	Manu Price	32 (6.4%)	59 (11.8%)	167 (33.4%)	186 (37.2%)	56 (11.2%)
13.	Room Tariffs	26 (5.2%)	164 (32.8%)	168 (33.6%)	74 (14.8%)	68 (13.6%)
14.	Customer Satisfaction	66 (13.2%)	159 (31.8%)	132 (26.4%)	77 (15.4%)	66 (13.2%)
15.	Target	7 (21.4%)	153 (30.6%)	182 (36.4%)	68 (13.6%)	90 (18.0%)

16.	Budget	36 (7.2%)	81 (16.2%)	180 (36%)	143 (28.6%)	60 (12%)
17.	Financial Position	29 (5.8%)	100 (20.0%)	191 (38.2%)	112 (22.4%)	68 (13.6%)
18.	Size of Business	30 (6.0%)	161 (32.2%)	94 (18.8%)	166 (33.2%)	49 (9.8%)
19.	Liquidity Position of Business	19 (3.8%)	106 (21.2%)	183 (36.6%)	134 (26.8%)	58 (11.6%)

5. Findings

The above data table reflects a mixed impact of GST on the hotel and restaurant industry in Gujarat. Sales and revenue show a balanced distribution, with neutral responses (34.6%) prevailing, though negatives (30.4%) slightly outweigh positives (35%). Purchases and profits follow a similar trend, with neutrals leading (33.4% and 39.8%, respectively), and negatives slightly higher than positives. Costs, including production, service, and raw material, has risen significantly, with negatives dominating (e.g., raw material costs: 54.2% negative). Compliance costs are burdensome, with 35.6% negative feedback, though record-keeping and accounting procedures show relatively higher positives (43.8% and 53.8%, respectively). The working capital requirement and menu prices are major concerns, with negatives surpassing 50% and 48.4%, respectively. Customer satisfaction is more positive (45%), but rising costs, including tariffs and bills, show mixed impacts. Financial positions, liquidity, and business size lean toward neutral but reflect notable negative pressure, indicating a strained financial environment post-GST.

6. Conclusion

The implementation of the Goods and Services Tax (GST) has significantly reshaped the dynamics of the hospitality industry, particularly in the context of Gujarat's thriving restaurant and hotel sector. The analysis reveals a multifaceted impact on key dimensions such as revenue, pricing strategies, compliance costs, and consumer behaviour. While GST has streamlined the taxation process by replacing a fragmented system with a unified structure, its implications on business performance remain mixed.

Revenue and profit trends indicate a cautious equilibrium, with neutral sentiments prevailing but negative impacts slightly outweighing positive outcomes, highlighting challenges in adapting to the new tax regime. Operational costs, including production, service, and raw

material expenses, have seen substantial increases, adversely affecting overall profitability. Compliance requirements, though promoting transparency, have added significant administrative burdens, particularly for smaller establishments, which struggle with limited resources.

On the consumer front, GST has introduced pricing transparency, fostering trust and clarity. However, higher tax rates, especially on premium services, have influenced spending patterns, potentially limiting growth in high-end segments while benefiting mid-range and budget establishments. The input tax credit mechanism has improved operational efficiency but has led to disparities within the industry due to its selective applicability.

Overall, GST has fostered economic efficiency and compliance but has also created financial and operational challenges, especially for businesses with limited capacity to absorb additional costs. The findings suggest the need for policy refinements, such as rationalizing tax rates and extending input tax credit benefits across all hospitality subsectors, to ensure balanced growth. These insights contribute to the broader discourse on GST's effectiveness as a tool for economic reform and its implications for industry-specific sustainability.

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