

An Analysis of Tax Reforms in India in Context of Goods and Services Tax and its Impact on Hotel and Tourism

Sanjay Chhabra¹ | Nisha Chopra^{2*}

¹Professor, Jayoti Vidyapeeth Women's University, Jaipur, Rajasthan, India.

²Research Scholar, Jayoti Vidyapeeth Women's University, Jaipur, Rajasthan, India.

*Corresponding Author: nishaharitwal1432@gmail.com

ABSTRACT

This study investigates the implications of India's tax reforms, particularly the Goods and Services Tax (GST), on the hospitality and tourism sector in Jaipur, Rajasthan. Through a qualitative approach involving stakeholders in the hotel industry, the research examines structural shifts introduced by GST post its enactment in 2017. As a unified indirect tax system, GST amalgamates numerous pre-existing levies into a single framework applicable to the production and consumption chain. The hospitality sector, contributing significantly to GDP and employment, has witnessed pricing adjustments, transparency in billing, and enhanced record-keeping due to GST enforcement. The hotel sector in India accounts for approximately 6.23% of the country's GDP and provides 8.78% of national employment. Although the initial transition posed challenges for service providers, including increased operational costs and customer sensitivity to higher rates, long-term outcomes suggest improved accountability and potential benefits for consumers. The study underscores how tax reforms can influence sectoral dynamics in emerging economies, drawing upon classical tax theory and public finance literature (Musgrave & Musgrave, 1989; Lekhi, 2010).

Keywords: GST, Tourism, Hoteliers, Tax Reform, Impact, Fiscal Policy.

Introduction

The introduction of the Goods and Services Tax (GST) in India marks a landmark reform in the country's indirect taxation system. Instituted through the 101st Constitutional Amendment Act and enforced from July 1, 2017, GST aims to simplify and consolidate the multitude of state and central taxes into a single, unified structure. As per standard public finance principles, such a shift is designed to reduce tax cascading, enhance revenue collection efficiency, and promote economic integration across regional markets.

Prior to GST, India's indirect tax framework included Central Excise Duty, Service Tax, State VAT, Entry Tax, and several other cesses and surcharges. These fragmented taxes not only created compliance burdens but also hindered the smooth flow of goods and services across states. GST replaced these with a dual model—Central GST (CGST) and State GST (SGST), applicable concurrently on intra-state transactions, and Integrated GST (IGST) on inter-state supplies.

India's GST framework categorizes goods and services under five main tax brackets: 0%, 5%, 12%, 18%, and 28%. Special rates apply to certain items, including a 3% tax on gold and a 0.25% tax on unworked precious and semi-precious stones. Furthermore, a cess, varying between 0% and 28%, is imposed on specific products like tobacco, luxury vehicles, and carbonated beverages. The hotel and tourism industry, being service-intensive and multi-layered in taxation, has been significantly influenced by this reform. By implementing a value-added mechanism, GST allows credit on input taxes paid, thus aligning with the global best practices of tax neutrality.

Moreover, GST has been envisioned as a tool to foster the 'One Nation, One Tax' ideology, encouraging uniformity in tax rates and reducing regional disparities in tax treatment. This study delves

into how the implementation of GST has transformed the business dynamics of the hotel and tourism sector in India, with a particular focus on Jaipur, a prominent destination in Rajasthan.

Status of Hotels in India

India is a country that has many exceptional sanctuaries that are famous for their amazing ecosystem and diverse wildlife reserves and includes the Indian Ocean, Himalayas, Bay of Bengal and Arabian Sea. Our country is a multilingual country, with many languages and even more dialects. The cultural heritage of each region is as diverse as the diversity of its languages and culinary traditions. Every traveler dreams of visiting and exploring this fascinating country. It has an abundance of natural attractions, as well as waterfalls, deserts, famous and historical rivers like Ganga, Yamuna, Indus and many more. The Indian tourism campaign has adopted its trademark slogan 'Atithi Devo Bhava', which means treating the guest as God. This reflects the underlying ethos of a country like India. Whenever a guest enters India, Indians have a cultural and historical obligation to respect the traveler and provide him with the best services. Indians treat their travelers with warmth and love because spiritually the traveler is similar to a seeker, as Indian spiritualists describe this land as the land of seekers.

Rajasthan is the largest province of India located in the north western direction and is one of the most famous tourist destinations of India. The state boasts of diverse social, cultural and religious festivals, which are celebrated in the field of arts like dance and music and expression. In fact, the state is home to Kathak, one of the major traditional dance styles of India. Apart from this, the state is known for its Rajasthani food style, which includes snacks like Ghawar and Pyaaz Kachari. Similarly, the main dishes like Laal Maas and Kababs are really very tasty. The state is beyond all boundaries of craftsmanship, culture, food, music and dance.

Jaipur, known as the "Pink City," was founded in 1727 by Maharaja Sawai Jai Singh II, the 30th ruler of the Kachwaha Rajput dynasty of Amber. He meticulously planned the city, incorporating principles from Vedic architecture and urban design. The city's distinctive pink hue and its architectural and cultural significance led to its recognition as a UNESCO World Heritage Site in 2019.

GST Rates Applicable to Hotels

The hospitality sector, particularly hotels, falls under the ambit of service classification within the GST framework. Services provided by hotels in the form of lodging and food are categorized under Heading 9963 as per the GST rate notification issued by the Central Government (Notification No. 11/2017-Central Tax (Rate), dated 28th June 2017).

In response to industry feedback and the need to balance taxation with affordability and competitiveness, the GST Council, in its 37th meeting held on 20th September 2019, proposed a reduction in applicable tax rates on hotel accommodation. This recommendation was implemented through Notification No. 20/2019-Central Tax (Rate), effective from 1st October 2019.

The revised tax structure is as follows:

Room Tariff per Day (INR)	Pre-Amendment Rate	Post-Amendment Rate	Notification Reference
Below ₹1,000	Nil	Nil	Notification No. 12/2017-CT(R)
₹1,000 – ₹2,499	12%	12%	Entry No. 7(i)
₹2,500 – ₹7,499	18%	12%	Entry No. 7(i)
₹7,500 and above	28%	18%	Entry No. 7(vi)

These changes reflect the Council's intent to rationalize tax burdens and support the growth of domestic and international tourism. The shift in rates, particularly for mid-range and luxury segments, was expected to enhance affordability and transparency in pricing, especially for inbound tourists who are sensitive to high accommodation taxes.

- **As noted in Indirect Taxes:** Law and Practice by V.S. Datey (2022), hotel services under GST are taxed not on the declared tariff but on the actual amount charged to the customer, which adds further clarity and fairness to the system.

The alignment of tax slabs with pricing categories has had significant implications for hotel revenue strategies, consumer behavior, and overall sectoral competitiveness. The reform aims to create a balance between revenue generation and the ease of doing business, particularly for service providers in tourism-focused regions such as Rajasthan.

Changes in GST applicable on Restaurant Services

Restaurant services in India have also experienced significant restructuring under the GST regime. Initially placed under a higher tax bracket, the GST Council made notable adjustments to rationalize the burden on food service providers, particularly those operating in non-premium segments. The changes were formalized through the same amendment notification that revised hotel tariffs—Notification No. 20/2019-Central Tax (Rate), effective from 1st October 2019.

Under the revised structure, restaurant services are divided into two broad categories:

- **Restaurants in Non-Specified Premises:** These establishments are liable to pay a GST of 5% on the total bill value. However, this concessional rate is granted without the benefit of Input Tax Credit (ITC). This structure is primarily aimed at small and mid-sized eateries, cafes, and casual dining outlets that serve a mass clientele.
- **Restaurants in Specified Premises:** For restaurants situated within hotels where the declared tariff of any accommodation unit exceeds ₹7,500, a standard GST rate of 18% applies. In these cases, Input Tax Credit is available, aligning with the value-added nature of GST.

It is important to note that, for calculating the applicable tax on restaurant services, the declared tariff of the hotel room is used as the qualifying criterion to determine whether the premises are “specified.” This linkage, as clarified in CBIC circulars and discussed in V.S. Datey’s *Indirect Taxes: Law and Practice*, emphasizes the need for clarity in classification to ensure accurate tax compliance.

The withdrawal of ITC for the majority of restaurants was a policy move intended to simplify compliance but has received mixed reactions. While it has lowered the tax rate for small vendors, it has also increased the effective tax cost for high-end establishments and restaurants relying heavily on input services such as rentals, utilities, and food procurement.

These changes have a direct bearing on both operators and consumers. For the former, especially those in tourist-heavy zones like Rajasthan, pricing strategies and tax planning have become more nuanced. For consumers, particularly domestic tourists, the simplified 5% structure without ITC has made casual dining more predictable and affordable. On the other hand, luxury diners are likely to face higher bills due to limited offsetting of taxes through input credits.

Objectives of the Study

The present study is guided by the following primary objectives:

- To analyze the structural changes introduced by the Goods and Services Tax (GST) within India's indirect tax regime, with specific focus on its influence on the hotel and tourism sectors.
- To examine the operational, financial, and compliance-related implications of GST on hotel operators, particularly in heritage-driven tourist hubs like Jaipur.

These objectives are grounded in the broader policy debate around fiscal federalism and tax harmonization in developing economies. As discussed in *Public Finance* by H.L. Bhatia (2021), tax reforms like GST aim not only at streamlining revenue collection but also at minimizing distortions and improving economic efficiency across sectors.

The GST legislation has been instrumental in simplifying India's intricate tax system. It endeavors to bolster the nation's GDP ratio and mitigate inflationary pressures. However, the manufacturing sector has faced more challenges compared to sectors like warehousing, non-banking financial companies (NBFCs), and cement. Previously subjected to tax rates between 24% and 38%, the manufacturing sector now benefits from reduced rates under GST. The insurance sector has been more adversely affected by GST. The tax rate on premium and banking services under the health insurance scheme, which was earlier 15%, has now been increased to 18%. It will promote competition at the international level and along with making the tax neutral; it will reduce the manufacturing cost, due to which the consumer will get the product at a lower price, which will improve India's position at the international level. The implementation of GST for the Indian economy will help in preventing tax evasion and corruption and there is a possibility of increase in India's GDP ratio in future. Conversely, the insurance sector has experienced increased tax burdens, with premiums for health insurance and banking services rising from 15% to 18%. Overall, GST aims to enhance international competitiveness by fostering tax neutrality and lowering manufacturing costs, thereby offering consumers products at more affordable prices and improving India's global economic standing. Additionally, GST's implementation is anticipated to curb tax evasion and corruption, potentially leading to an uptick in India's GDP ratio in the future.

Furthermore, the study intends to assess whether GST has fulfilled its intended role of simplifying the tax structure, reducing cascading tax effects, and creating a level playing field in the hospitality industry—a sector traditionally governed by overlapping state and central levies.

GST and its Impact on the Hotel and Tourism Industry

The introduction of GST has had both positive and negative impacts on the hotel and tourism industry. Tax rates, compliance requirements, and the shift from multiple taxes to a single tax regime have impacted the functioning of the sector.

Tax rates on hotel services under the previous taxation system, the hotel and tourism industry was subject to multiple taxes. The introduction of GST was aimed at streamlining the process. Hotel services are classified into different categories under GST based on the room rent:

Up to ₹1,000 per night: Exempt from GST. ₹1,001 to ₹7,500 per night: 12 per cent GST. Above ₹7,500 per night: 18 per cent GST. This tiered structure under GST has implications for different segments of the hospitality sector:

- **Budget Hotels:** Budget hotels with room rents below ₹1,000 benefit from exemptions under GST. This has made low-budget accommodation more affordable, boosting tourism in areas with lower income levels. **Mid-range Hotels:** A 12 per cent tax rate applies to mid-range hotels with room rents between ₹1,000 and ₹7,500. **Luxury Hotels:** High-end hotels with rooms costing more than ₹7,500 are subject to 18 per cent GST. The higher tax burden on luxury hotels has led to an increase in the cost of accommodation for international tourists and business travelers, which may impact demand in this segment.

Input Tax Credit (ITC)

One of the hallmark features of the Goods and Services Tax (GST) framework is the provision for Input Tax Credit (ITC), a mechanism that allows businesses to claim credit for the tax paid on purchases used in the course of their business operations. This principle of tax neutrality—central to the design of modern indirect taxation systems—is intended to prevent the cascading of taxes and thereby reduce the overall cost burden on end consumers (Bhatia, *Public Finance*, 2021).

In the context of the hotel industry, ITC is available on various inputs such as food supplies, electricity, maintenance services, and utilities used in the provision of accommodation and dining services. Ideally, this should lower the operational costs of hoteliers, which can then be passed on to consumers in the form of more competitive pricing. However, in practice, the benefits of ITC have been mixed, particularly among smaller and mid-sized establishments.

Many hotel operators, especially those in the unorganized segment, have faced procedural and technical barriers in availing ITC. These challenges include complex documentation requirements, regular filing of returns, reconciliation of invoices, and strict timelines for claiming credits. Moreover, certain inputs—such as commercial property rent or goods not directly used in taxable supply—are excluded from ITC eligibility, as per Rule 42 and 43 of the CGST Rules, 2017.

The partial withdrawal of ITC benefits for businesses operating in restaurants or under certain tariff brackets has also contributed to ambiguities in tax planning. As noted by Datey (2022), while ITC is designed to enhance efficiency, its restricted application and cumbersome compliance procedures have diluted its intended impact, particularly in service-centric industries like tourism and hospitality.

Hence, while the ITC provision under GST is theoretically beneficial, its practical implementation has raised several issues of accessibility and administrative overhead, especially for smaller players without robust accounting infrastructure.

Impact on Tour Operators

GST also impacts the tourism sector, particularly tour operators. Prior to GST, tour operators had to face multiple indirect taxes such as service tax and VAT. Under GST, tour operators will now have to pay 5 per cent GST on tour packages without the option to avail input tax credit. This has raised concerns especially for luxury or high-value tour packages, where the tax burden can significantly increase the total cost of the package. In addition, the introduction of GST has impacted inbound tourism, especially for foreign travelers. Many international tourists consider India an expensive destination due to additional GST on services such as hotel stays and local transport. This may impact India's competitiveness in the global tourism market, especially compared to other South Asian countries with lower tax burdens.

GST on Restaurants and Food Services

GST on food services has been another contentious issue for the hospitality sector. Restaurants and food services are subject to 5 per cent GST without input tax credit for businesses with an annual turnover of less than ₹1.5 crore. Restaurants with turnover of more than ₹1.5 crore are subject to 18 per cent GST. This increase in tax rates has affected both hoteliers and consumers. Small-scale restaurants and eateries, especially in the tourist areas, find it difficult to deal with the new tax burden, as they cannot claim input credit for goods and services purchased. This increases operational costs and leads to higher prices for customers. On the other hand, high-end restaurants falling under the 18 per cent tax slab face the challenge of balancing the need to maintain profitability without losing customers due to price hikes. Increased compliance costs. The introduction of GST has significantly increased compliance costs for the hotel and tourism industry. Businesses are required to maintain detailed records of all transactions, file GST returns, and comply with other regulatory requirements. Smaller hotels and tour operators often lack the infrastructure and manpower to manage this complex compliance system. Many of them have had to invest in accounting software and hire additional staff, resulting in increased operating expenses. Furthermore, fluctuations in GST rates and changes in tax slabs have further complicated the compliance process. This has created a burden, particularly for businesses operating in multiple states, as they must adapt to different state-level policies and tax rates. Impact on domestic versus international tourists The GST regime has also had different impacts on domestic and international tourists. Domestic tourists benefit from a more transparent tax system, particularly with regard to transportation services and hotel stays.

However, international tourists may face higher costs due to higher GST rates on services such as hotels and tours. Moreover, foreign travelers often have to pay the entire GST upfront with limited options for refunds or tax credits.

Conclusion

The implementation of the Goods and Services Tax (GST) has undeniably marked a structural transformation in India's fiscal landscape. For the hotel and tourism industry—an integral component of the country's service economy—the shift from a fragmented tax regime to a unified system has had multidimensional implications. In cities like Jaipur, which thrive on heritage-based tourism, GST has introduced both operational discipline and initial financial pressures. While the early phase of the GST rollout was marked by confusion and resistance, especially from small and medium hotel operators, subsequent rationalization of rates and improved digital compliance mechanisms have gradually fostered acceptance within the industry. The reform has notably enhanced transparency, encouraged formalization of the sector, and brought greater accountability in business practices.

However, the effectiveness of GST in simplifying tax compliance continues to depend heavily on factors such as digital literacy, awareness about input tax credit provisions, and timely updates in policy. As indicated in fiscal policy discourse (Musgrave & Musgrave, 1989; Lekhi, 2010), tax reforms in developing economies must be complemented by administrative readiness and stakeholder engagement to yield optimal results. Looking forward, the tourism sector's ability to adapt to GST will influence not only its pricing strategies and investment attractiveness but also India's competitiveness as a global tourist destination. With further simplification of rules and sector-specific support, GST can serve as a catalyst for sustainable growth in hospitality, tourism, and allied services—truly bringing the vision of "One Nation, One Tax" to life.

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