

ROLE OF GOODS AND SERVICE TAX (GST) IN SUSTAINABLE DEVELOPMENT OF HOTEL AND TOURISM INDUSTRY

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Abstract

The **Goods and Services Tax (GST)** has brought significant changes to the taxation system in India and has played an important role in the development of the hotel and tourism industry. Introduced on 1 July 2017, GST replaced multiple indirect taxes such as service tax, value-added tax (VAT), luxury tax, and entertainment tax with a single unified tax structure. This reform has simplified the tax system, improved transparency, and reduced the complexity of compliance for businesses operating in the hospitality and tourism sectors.

GST has contributed to the sustainable development of the hotel and tourism industry by reducing cascading taxes and enabling businesses to claim Input Tax Credit (ITC), which helps lower operational costs and improve profitability. The unified tax structure has also enhanced ease of doing business, encouraged investment, and promoted the growth of the organized sector. Additionally, the digital nature of GST has improved record-keeping, accountability, and efficiency within the industry.

By increasing government revenue and ensuring better tax compliance, GST supports the development of tourism infrastructure and services, which are essential for long-term industry growth. Overall, GST has created a more transparent, efficient, and competitive environment that supports the sustainable development of the hotel and tourism industry in India.

Introduction

The hotel and tourism industry plays a vital role in the economic development of a country by generating employment, promoting cultural exchange, and contributing significantly to national income. In India, tourism is one of the fastest-growing sectors and supports various related industries such as hospitality, transportation, travel agencies, and entertainment. However, before the introduction of the **Goods and Services Tax (GST)**, the industry faced a complex taxation system with multiple indirect taxes imposed by both central and state governments, including service tax, value-added tax (VAT), luxury tax, and entertainment tax. This complicated tax structure created challenges for businesses in terms of compliance, cost management, and transparency.

To simplify the tax system and promote economic growth, the Government of India introduced the **Goods and Services Tax (GST)** on 1 July 2017. GST is a comprehensive, destination-based indirect tax that replaced several existing taxes with a single unified system. The main objective of GST is to eliminate the cascading effect of taxes, ensure

transparency in the taxation process, and create a more efficient and organized market structure.

The implementation of GST has had a significant impact on the hotel and tourism industry. By simplifying taxation, allowing input tax credit, and encouraging digital compliance, GST has improved the ease of doing business for hotels, restaurants, travel agencies, and other tourism-related enterprises. It has also helped create a more competitive environment that supports long-term growth and sustainability within the sector.

Therefore, understanding the role of GST is essential in analyzing how it contributes to the sustainable development of the hotel and tourism industry by improving operational efficiency, promoting transparency, and supporting overall economic development.

Keywords: Goods and service tax, Hotel Industry. Tourism industry, sustainability.

Objectives-

1. To study the concept of Goods and Services Tax (GST) **and its relevance to the hotel and tourism industry**
2. To evaluate the role of GST in promoting sustainable growth and development **in the hotel and tourism industry**

Research Methodology: The whole study is depended on theoretically. It is totally secondary in nature from various sources like, video lectures on YouTube, journals, articles.

Limitations

1. **The study is totally dependent upon the secondary data.**
2. **This study is taken from limited theoretical source.**

Data Analysis and Interpretation:

1. **To study the concept of Goods and Services Tax (GST) and its relevance to the hotel and tourism industry:** Goods and Services Tax (GST) is a **comprehensive indirect tax** applied to the supply of goods and services in a country. In India, GST was implemented on **1 July 2017** to replace several indirect taxes such as **Value Added Tax (VAT), Service Tax, Luxury Tax, Central Excise Duty, and Entertainment Tax**. The main idea behind GST is **“One Nation, One Tax.”** It creates a **uniform tax system** across the country and simplifies the taxation process for businesses and consumers. GST is a **destination-based tax**, which means the tax is collected in the state where the goods or services are **consumed**, rather than where they are produced.

The **Goods and Services Tax (GST)** has a significant impact on the **hotel and tourism industry** because this sector involves many services such as accommodation, restaurants, transport, travel agencies, and tour operations. GST has simplified the tax

system and brought more transparency to the hospitality and tourism business 1.
Simplified Tax Structure

1. Simplified Tax Structure

Before GST was introduced, hotels and tourism businesses had to pay several different taxes such as **service tax, VAT, luxury tax, and entertainment tax**. GST replaced these multiple taxes with **one unified tax system**, making taxation simpler and easier to manage.

2. Uniform Tax Rates Across the Country

GST provides **standard tax rates for hotel rooms, restaurant services, and travel services** across India. This uniformity helps tourists clearly understand prices and reduces confusion caused by different taxes in different states.

3. Input Tax Credit (ITC)

Under GST, hotels and tourism businesses can claim **Input Tax Credit** on goods and services used in their operations, such as:

- Furniture and equipment
- Food supplies
- Maintenance services
- Housekeeping materials

This helps reduce the **overall tax burden and operational costs**.

4. Transparency in Pricing

GST makes the billing process **clear and transparent**. Customers can easily see the amount of tax charged on hotel bills, restaurant services, or tour packages. This increases **trust between businesses and customers**.

5. Boost to Tourism Industry

A simplified and transparent tax system makes travel planning easier for both **domestic and international tourists**. This can encourage more people to travel, which increases business for **hotels, tour operators, and travel agencies**.

6. Better Compliance and Digital System

GST operates through an **online tax system**, encouraging hotels and tourism businesses to maintain proper digital records and invoices. This improves **efficiency, accountability, and professionalism** in the industry.

7. Organized Business Environment

GST has helped bring many small tourism businesses into the **formal economy**, making the sector more organized and regulated.

GST Rates Applicable in the Hotel Industry:

GST rates in hotels depend mainly on the **room tariff per night**

Room Tariff (per night)	GST Rate
Up to Rs. 1000	0%
Rs. 1001 to Rs. 7500	12%
Above Rs.7500	18%

For restaurant inside Hotel:

1. **5% GST** (without Input Tax Credit) for most restaurants.
2. **18% GST** for luxury hotel restaurants with certain conditions

GST on Tourism Services:

Tourism-related services also fall under GST. Examples include:

Service	GST Rate
Tour operator services	5%
Air travel (economy class)	5%
Air travel (business class)	12%
Rent-a-cab services	5%
Event and entertainment services	18%

2. To evaluate the role of GST in promoting sustainable growth and development in the hotel and tourism industry.

The **Goods and Services Tax (GST)** has played a significant role in shaping the **hotel and tourism industry** in India. Its introduction in **2017** aimed to simplify the indirect tax system, reduce tax cascading, and promote transparency. These changes have influenced the sector's ability to achieve **sustainable growth and development** in several ways.

Positive Impacts of GST

a) Simplification of Tax Structure

- Before GST, hotels and tourism businesses faced multiple taxes such as VAT, service tax, luxury tax, and entertainment tax.

- GST replaced these with a **single, unified tax**, reducing confusion and compliance burden.
- **Effect:** Easier operation for hotels, travel agencies, and tour operators, promoting organized growth.

b) Reduction in Cost through Input Tax Credit (ITC)

- Hotels can claim ITC on goods and services purchased (e.g., furniture, supplies, utilities).
- **Effect:** Lower operational costs encourage reinvestment in infrastructure and eco-friendly facilities, contributing to sustainable development.

c) Transparency and Formalization

- GST requires proper digital invoicing and record-keeping.
- **Effect:** Reduces informal business, prevents tax evasion, and ensures fair competition. A more formalized industry attracts sustainable investment.

d) Uniform Taxation and Tourism Promotion

- Standard GST rates reduce variation across states.
- **Effect:** Encourages both domestic and international tourism by making pricing more predictable, promoting steady growth in the sector.

e) Support for Small and Rural Tourism

- Small hotels and homestays can benefit from composition schemes under GST.
- **Effect:** Encourages local entrepreneurship, community tourism, and rural tourism, fostering sustainable economic development in smaller towns.

f) Digitalization and Efficiency

- GST is fully digital, with e-filing and e-invoicing.
- **Effect:** Encourages online bookings, reduces paperwork, and improves operational efficiency, contributing to modern and sustainable tourism practices.

Limitations and Challenges

a) Higher Taxes for Luxury Hotels

- GST rates for 4–5 star hotels are relatively high (28%).
- **Effect:** Could reduce high-end domestic tourism, impacting revenue for luxury operators.

b) Compliance Burden

- Small operators may struggle with frequent filing, technical glitches, and understanding GST rules.
- **Effect:** May discourage smaller enterprises from fully benefiting, limiting inclusive growth.

c) Frequent Rate Changes

- Updates in GST slabs can create uncertainty.
- **Effect:** Challenges long-term planning and investment in sustainable infrastructure.

Overall Evaluation:

- **Promotes Sustainable Growth:** By reducing costs, encouraging formalization, and supporting smaller businesses, GST helps create an **organized, transparent, and eco-friendly industry environment**.
- **Boosts Investment in Tourism Infrastructure:** Lower indirect tax burden and ITC benefits encourage investment in sustainable facilities.
- **Encourages Digital and Efficient Operations:** Online payments and booking platforms reduce paper waste and improve operational efficiency.
- **Challenges Remain:** High rates for luxury hotels and compliance burdens for small businesses need addressing for more inclusive growth.

Conclusion:-

In conclusion, the implementation of the **Goods and Services Tax (GST)** has significantly contributed to the **sustainable growth and development of the hotel and tourism industry**. By replacing multiple indirect taxes with a unified tax system, GST has simplified tax compliance, improved transparency, and reduced the cascading effect of taxes. This has created a more organized and efficient business environment for hotels, travel agencies, and other tourism-related services. GST has also supported sustainable development by encouraging **digital transactions, better record-keeping, and formalization of the sector**, which increases accountability and trust among stakeholders. Additionally, the availability of **Input Tax Credit (ITC)** helps businesses reduce operational costs and invest more in improving infrastructure, service quality, and environmentally responsible practices. Furthermore, GST promotes **uniform taxation across states**, making travel packages and hotel services more transparent and competitive, which can attract both domestic and international tourists. At the same time, small businesses such as homestays and local tourism operators benefit from simplified tax provisions, supporting **community-based tourism and local economic development**.

However, challenges such as relatively high tax rates for luxury hotels and compliance requirements for smaller enterprises still need to be addressed to maximize the benefits of GST.

Overall, GST has played an important role in strengthening the **efficiency, transparency, and long-term sustainability of the hotel and tourism industry**, contributing to economic growth while supporting responsible and inclusive tourism development.

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