Valuable Taxation System for Restaurant Industry-GST or VAT: A Theoretical Framework

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Abstract: **--** The introduction of Goods and Services Tax (GST) is a very significant step in the field of indirect tax reforms in India. 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. The GST on 5-Star hotel restaurants has been reduced from 28% to 18%(except alcoholic product because it doesn't comes under GST for every restaurant and hotel, it charged by state government separately taxation policy as a consumer the GST on restaurant meals has made dining out more pocket-friendly with a single transparent 18% charge as opposed to the earlier multiple 20-24% charges that were cumulatively levy. This paper presents the role of restaurant industry, tax rates under VAT or GST taxation system, restaurant bill with pre and post taxation system and impact on restaurant consumer and owner.

Keywords: **GST, VAT, Supply Chain Management, Restaurant Industry, Food Industry.**

I. INTRODUCTION

GST stands for Goods and Service Tax. Goods and Service Tax is applied on services and goods at a national level with a purpose of achieving overall economic growth. GST is particularly designed to replace the indirect taxes imposed on goods and services by the Centre and States. GST will be an indirect tax at all the stages of production to bring about uniformity in the system. Under this system, the consumer pays the final tax [1-4]. GST or Goods and Services Tax is a value added tax, levied at all points in the supply chain with credit allowed for any tax paid on inputs acquired for use in making the supply. Therefore, it is the end consumer who bears this tax as the last person/entity in the supply chain.

A. *Restaurant Industry in India*

The restaurant industry, valued at Rs 3, 09,110 Crores is the third largest after retail and insurance in the services segment according to the NRAI India Food Services Report 2016. It generates revenue that is 1.6 times of Indian railways and two times the size of IT industry and contributes over 2.1 per cent to the GDP of India, and provides employment to over 6 Million Indians approximately [3, 5]. Restaurants provide for the maximum density employment opportunities to the widest variety of human resource in terms of education and skills (including differently abled persons). The industry's present direct employment figure of 5.8 Million people is expected to reach 8.7 Million, while the indirect employment figure of 7.5-8.4 Million is projected to grow to 9.5-10.5 Million by 2021. The size of the Indian Food Services market in India (organized and unorganized) is estimated at INR 3, 37,500 crore in 2017 and is projected to grow at a CAGR of 10% over the next 5 years to reach INR 5, 52,000 crore by 2022.The unorganized segment's share in the Food Services market reduced from 70% in 2013 to 66% in 2016 and is projected to fall to 57% in 2022 [6-9]. This is the case as many unorganized businesses are moving towards the organized sector.

The organized market (chain and organized standalone outlets) is estimated at INR 1,15,000 crore in 2017 and is projected to grow, at a CAGR of 16%, to reach INR 2,37,000 crore by 2022 gaining a share of 40% from 31% in 2017.

B. Importance of Food Services Industry to Economy's Growth

The Indian economy has a significant presence on the global economic stage. During FY 2010 to FY 2016, India's Real GDP grew at a CAGR of 7.3%. It is estimated that GDP will grow at a CAGR of 7.6 % from FY 2016 to FY 2022 and India will be in the top three global economies by 2050. The Indian economy is pegged to reach an estimated ~INR 230 lakh crore by 2020 (nominal terms) and Food Services emerge as a key segment in Indian economy, with the overall market worth INR 3, 37,500 crore (2017) which is ~8 times bigger than hotels. The market's growth will be powered by changing consumer dynamics and increasing market proliferation by brands in the space[2, 4, 5]. The Indian economy, worth INR 155 lakh crore in FY 2017, is estimated to reach INR 230 lakh crore by FY 2020. (Source: NRAI Technopak India Food Services Report 2016, Technopak Analysis)

A higher share of consumer discretionary spends have been absorbed by eating-out and ordering-in; a trend which is expected to strengthen in the next 5 years. At present 17% of discretionary spend is expended on eating-out and ordering-in, and is expected to reach 19% by 2020.

Food Services is emerging as a key segment in the Indian economy, with a value of INR 3, 37,500 crore at current prices) larger than the pharmaceuticals and FMCG sector in India. The unorganized market is worth INR 2, 22,500 crore while the organized market is worth INR 1,15,000 crore. The market's growth will be powered by changing consumer dynamics and increasing market proliferation by brands in the space. It is rational to anticipate that the Food Services market will see growth in tandem with this economic growth, and there is every indication that such expansion will be substantial [8-11]. Though PFCE is increasing in absolute terms, the YoY (Year-over-Year) growth rate from 2010 to 2022 is declining. The share of expenses on basic necessities is reducing as the discretionary spend on categories like apparel; consumer electronics and durables are on rise. Spend on Food Services will also grow at a healthy rate with the rise in discretionary spend [10].

TABLE I
CONTRIBUTION OF FOOD SERVICES INDUSTRY TO GDP

Year	Market Size (INR'00 Crore)	Food Service Growth (%)	GDP Growth (CAGR %)	% Contribution to GDP
2013	2479	-	-	2.3%
2017 E	3350	8%	7%	2.3%
2022 P	5494	10%	8%	2.6%

Source: NRAI Technopak India Food Services Report 2016, Technopak Analysis

II. REVIEW OF LITERATURE

Muthu and Senthil (2013 The researcher conclude that Value Added Tax is a new tax format for all pharmaceutical retailers with the introduction of VAT, there are some new formalities and hidden problems for them. But most of the retailers showed favorable attitude towards VAT implementation.

The problems like daily maintenance of opening and closing stock, bill maintenance, self-assessment, computerizing the account should be sympathetically viewed by the Government for considering the development of the pharmaceutical retailers.

Pinki et al. (2014) studied, "Goods and Service Tax- Panacea For Indirect Tax System in India" and concluded that the new NDA government in India is positive towards implementation of GST and it is beneficial for central government, state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.

Kumar (2014) studied, "Goods and Service Tax - A way forward" and concluded that after implementation of GST in India many indirect tax system will be finished and there will be only one tax i.e. GST which is expected to encourage unbiased tax structure..

Chaurasia et al. (2016) Studied, "Role of Goods and Services Tax in the growth of Indian economy" and concluded that in 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.

Manjunath et al. (2016) conducted a study on, "Customer satisfaction in Fast food industry". The objective of the study is to find out the key success factors for fast food industry in region of mysore district and its aim is to find out the essential factors or determinants of customer satisfaction in the restaurant industry of mysore district. The findings revealed that the service quality and physical design are the key factors for satisfaction in fast food industry in Mysore district.

Jonathan et. al (2017) conducted a study on , " Impact of GST in hotel and restaurants". The objective of the study is to how the restaurant bill will look under GST, and what are the implications for the end consumers for the owner and the overall industry. The findings revealed that hotels are liable for GST of 28% (14% CGST+14% SGST) as against the effective tax of 21% under present indirect tax regime.

Poonam (2017) conducted a study on, "Goods and services tax in India- An Introductory study". The objectives of the study is to study the concepts of GST and its impact on Indian economy, and to preserve how GST will work in India , to know the advantages and challenges of GST in Indian context.

Dash (2017) conducted a study on, "positive and negative impact of GST on Indian economy". The objective of the study is to cognize the concept of GST, to study the features of GST, to furnish information for further research work on GST, to evaluate the advantages and challenges of GST. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition which makes GST.

III. OBJECTIVES OF THE STUDY

1. To examine the valuable taxation system between GST or VAT for restaurant industry.
2. To analyze the impact on consumer and restaurant owner with old and new taxation system (example of restaurant bill pre and post implementation of GST)

IV. VALUABLE SYSTEM: GST OR VAT?

A. *Impact on the Consumer*

1) Value Added Tax System: VAT applies to all sales of goods and services, in part because it isn't known what the final product will be. VAT is assessed and collected on the value of goods or services that have been provided every time there is a transaction (sale/purchase) [14]. The seller charges VAT to the buyer, and the seller pays this VAT to the government. If, however, the purchasers are not the end users, but the goods or services purchased are costs to their business, the tax they have paid for such purchases can be deducted from the tax they charge to their customers. The government only receives the difference; in other words, it is paid tax on the gross margin of each transaction, by each participant in the sales chain [13]. There are various components which are added above the value of food such as Service tax, Value Added Tax (VAT) and Service Charge. Before going further let's understand the components of the bill first:

Service tax: This is a tax which is charged by the government for the services provided by the restaurant.

Service Charge: This charge is not a tax; it is an income for the hotels. This is a charge which is applied to the restaurants on the consumers and not by the government. Whereas Service tax is not an income, it is a tax collected by the government from the customers [15].

VAT: It is a tax which is charged on the food portion which is included in the bill.

However, rates under GST have been changed completely. Different rates are charged at different restaurants as per the service they provide;

- Non-AC roadside eateries will charge tax @12%.
- AC restaurants whether they serve alcohol or not they charge tax @18%.
- Non-AC restaurants which serve alcohol will charge tax @18%.

Restaurant Bill:

If the value of food which is consumed = Rs. 2,000
Service charge @10% = Rs. 200
Service tax @5.6% = Rs. 123.2
VAT @14.5% = Rs. 319

The total amount payable will become Rs. 2642.2. This means the consumer was paying Rs. 2642 on his food bill which was for the value of Rs. 2,000 before the implementation of GST [16-18].

2) Goods and Services Tax System: Current GST rates on restaurants are as under:

5% GST on:

- All standalone restaurants AC or Non AC
- Takeaway food
- Restaurants in hotels with room tariff less than Rs. 7500/-.
- No input credit for these restaurants

18% GST on:

- Restaurants in hotels with room rent over Rs. 7500/-.
- Outdoor catering.
- Input tax credit is available to these cases.

Restaurant Bill:

If the value of food is consumed: Rs.2000
Service charge @10% = Rs. 200
GST @18% (9% for Central Goods and Service Tax and 9% for State Goods and Service Tax) = Rs. 360.
As per GST consumer will be liable to pay only Rs. 2560.

According to above example GST is valuable taxation system for consumer as compare to VAT. Hence, after the implementation of GST at the standard rate of 18% consumer will save around Rs. 82 on the food bill.

B. Benefits for Consumer under GST System

- Consumers are finally free from having to haggle their brains calculating various taxes on the final bill. For customers, the GST has made dining out more pocket-friendly with a single transparent 18% charge as opposed to the earlier multiple 20-24% charges that were cumulatively levied [22].
- The payment system is going to be more effective and faster.
- Overall, trading on several commodities that was not regulated earlier has become more structured, for example, oilseeds, pulses, and cereals have been put under the light of a structured tax, and therefore can be accessed better in terms of both manufacture and consumption [19, 20].
- There would be more transparency in business, as everything, from the purchase to the sale of the product or service would be documented.

C. Impact on Restaurant Owner

1) Value Added Tax Regime

If the value of bill under the VAT regime is Rs. 5,000

The output tax liability will be calculated as per VAT @14.5% = Rs. 725

Service Tax @6% = Rs. 300

Hence the output tax liability will be the sum of VAT and service tax i.e. Rs. 1025

Input credit as per VAT ITC is Rs. 75

Now, the final output tax liability will be Rs. 950 which includes Rs. 650 as per VAT and Service Tax will remain same as there is no input tax credit i.e. Rs. 300.

2) Goods and Services Tax Regime

Output tax liability will be calculated @18% = Rs. 900

Input tax liability will be same as it was under the GST regime i.e. Rs. 75

The final output tax liability will be Rs. 825

According to the above examples, the total amount which is payable to the tax authorities is Rs. 950 under the VAT regime and Rs. 835 under the GST regime. Hence, under GST net outflow from the pocket is less than the net outflow under VAT. This will help the restaurant business owner in enhancing the working capital.

D. Benefits for restaurant owner under GST system

- Restaurant owners have more reason to cheer in the upcoming regime. Under the past tax regime, restaurant business owners do not get any option to adjust the output service tax liability with the credit of input VAT on goods consumed.
- However, under the new regime both these taxes will get subsumed into GST and thus irrespective of goods and services, the credit of input will be available for adjustment against the output liability [12, 20].
- This will further optimize the working capital of these restaurants and in turn, consumers can expect a more superior quality of food and services.
- Raw materials can be procured at subsidized rates from agriculturalists and farmers at a single stroke instead of owners having to negotiate taxes shall remain uniform throughout states thus making the competition even. The overall cost of procuring goods will thus decrease substantially, making the restaurant business a viable and easily manageable venture again [5, 15].
- Needless to say, with a single tax under GST for restaurants, the payment system is going to be more effective and faster [21].

V. CONCLUSION

In Pre GST era, there was a composite levy of both Service tax i.e. 6%, as well as, Value Added Tax i.e. 14.5% (Vary from State to State) on food and beverages served by hotels and restaurants which finally put the burden of 20.5% in the pocket of ultimate consumers. Under Goods and Service Tax, the greatest advantage would be standardization and uniformity of tax rates and the applicability of single tax rate, easy and better utilization of input tax credit and an edge to end-user in terms of lower prices. GST regime increase the interest of middle class people because pre GST they spend more money on the tax but in this regime can save up to 12 to 15 percent because mostly customer prefer the average restaurant not provide any facility like hotel (Subway, CCD, McDonalds, Haldiram, KFC, Takeaway, pizza hut, Dominos, Dhaba, etc.) .Thus we can clearly conclude that GST is valuable system for both restaurant owner and consumer enhancing the main segment of consumer by reduce the tax burden. It will directly impact on the profitability of business owner because more customer more profit and increasing working capital with the help of input tax credit. Overall GST will increase the market growth of restaurant industry as well as GDP of Indian economy.

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