

# A Review of Billing Structure in the GST Regime with Special Reference to Restaurant Industry

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**Abstract:** The fastest growing industry is restaurants and food service companies in India. Therefore, the growth of the business is affected by the changes in the tax collection system. The introduction of Goods and Services tax has caused some perplexity among restaurant owners. Under previous tax collection system, the restaurant sector was burdened with multiple high costing taxes and reforms. Consumers used to pay VAT, service tax and additional service charges on each restaurant bill, but all extra and excessive charges were removed in GST. The research paper aims at studying the impact of GST on the restaurant industry by highlighting the benefits and drawbacks of the same with the help of a hypothetical example of a restaurant's bill. The aim is to clearly explain the benefit it will have on the consumer's pocket and on the restaurant owner's cost of raw materials.

**Keywords:** Goods and services tax, Indian restaurant industry, Indirect taxation, Restaurant industry.

## I. INTRODUCTION

India is known for its food loving culture and renowned all across the world for its unique cuisines and culturally rich food. Over the last few decades, there has been a shift in the traditional Indian culture and people prefer to eat out more often due to various reasons like the increase in the consumable income, eating out culture, tourism, lifestyle up gradation, busy schedules, etc. No matter what is the reason there has been a significant increase in the demand for restaurants and it has become one of the most attractive industries for the investors and start up ideas. There are many new concepts that are brewing in this industry like different types of food joints, snack centres, cloud kitchen, etc. and there are also other high end restaurants that are attracting people who are interested to try different cuisines from all over the world. The restaurant industry has always been a centre of attraction from all aspects

and it has been growing at a fast pace. There are various changes that are happening rapidly in this industry due to technological up gradations, people are conveniently ordering food online through apps like Zomato, Swiggy, Food Panda, etc.

The restaurant industry has always played a major role in contributing to the nation's GDP by providing employment opportunities to millions of people and it is also a very popular start up idea amongst the younger population of India. Thus, we can say that it has been a major contributor to the overall economic development and hence it becomes necessary to understand and analyse the impact introduction of GST would have on the restaurant industry as a whole and also how it is going to impact the billing structure for the consumers.

GST is an indirect tax, destination based tax that means it is levied on the consumption of goods and services. It is a value added, multi-stage, and destination based tax levied on the final consumer of goods and services. It is levied not only on consumers but on the manufacturers, suppliers, retailers, and all the intermediaries involved in the process. GST was first introduced in France in 1954, and later adopted by over 140 countries across the world. India has adopted the dual system of GST levy under which there will be two components Central Goods and Services Tax (CGST) and state Goods and Services Tax (SGST). Taxes like Central excise duty, services tax, customs duties, etc. will be subsumed under CGST and state level taxes like luxury tax, octroi, lottery and betting charges, recreation taxes, etc. will be subsumed under the SGST.

GST will have an impact on all the sectors like Food and Restaurant Industry, Real Estate, Banking and Financial Services, Tourism Sector, Education, Health, etc. Basically it is going to impact each and every sector of the Indian economy and thus, it becomes important to analyse the impact it will have on the respective sectors. In the restaurant industry, there were a numerous taxes that were charged right from the point of purchase of raw material to its processing and consumption.

*Benefits of GST*

There has been a hype about the introduction of GST in the Indian economy, lets understand the benefits its introduction will have on the Indian economy and why is it required.

- One of the most important benefit of GST is that it will reduce the *Cascading effects of tax*.
- GST will bring *Uniformity of taxation* across states. This means that the taxation rates are uniform for a specific Good/Service all across India.
- GST is *Common Governing Law* that needs to be understood and complied with.
- Introduction of GST will *promote inter-state trade* and help businesses earn higher due to its enhanced consumer base.
- GST also offers *Convenience in the compliance procedure* as it is electronically managed and records are also maintained electronically which makes the entire process easy and hassle free.

II. LITERATURE REVIEW

R. Vasanthagopal, 2011, specified the effect of GST on agriculture, business growth, MSMEs, jobs, demand factors, price level, housing, Exim trade, impoverishment reduction, GDP, government revenue and concluded that adopting GST that has a smooth flow will help in flourishing Indian economy that would be different from India’s current difficult indirect tax system.

Hotel & Restaurant Association of Eastern India, 2015, showed their dissatisfaction with the GST rates. As per the members of association, if the rates are fixed between 10%-16% will be too costly for the restaurants and will bring negative results to the sector. Thus, they demanded that the rates must be capped at 10%.

Federation of Hotels and Restaurants Association of India (FHRAI), 2015, gave its full support to the government to introduce the GST as they anticipated that the introduction of GST will boost the Indian economy and will provide an added impetus to its growth. However, the association requested for the capping of the composite tax rate at 8%.

Mehta, 2015, after the implementation of GST, the GDP will rise from 1.5% to 2% due to cost reduction and other improvements in the tax system, and it will also make black money transactions impossible as it can only be processed by legal means.

*A. Objective of the Study*

- To understand the impact of GST on Restaurants and Food Service Businesses in India.
- To understand the GST mechanism with the help of an example.
- To provide insights to see how GST will function in the restaurant industry.

*B. GST on the Restaurants in India*

GST on the restaurants in India is levied on the basis of the type of restaurants as there are various categories of restaurants operating like standalone restaurants, restaurants within the starred hotels, outdoor catering, etc. Various GST rates applicable are as follows:

Type of Restaurant	GST Rate
All restaurants	5% without the ITC
Restaurants within the hotels premises (Room tariff < 7500)	5% without ITC
Restaurants within the hotels premises (Room tariff > 7500)	18% with ITC
Outdoor Catering	18% with ITC

The below illustration shows the Pre and Post GST billing structure for Customers.

*C. Pre GST Restaurant Bill*

TABLE I

ABC Food Joint		
Date		
Table No. 1		Bill No.
Particulars	Quantity	Price
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---	---	---
Total		Rs. 1000
Service charge @ 10%		100
Service tax @ 5.6%		61.6
KKC @ 0.2%		2.20
SBC @ 0.2%		2.20
VAT @ 14.5%		159.5
Total amount payable		1325.5

*D. Post GST Restaurant Bill*

TABLE II

ABC Food Joint		
Date		Bill No.
Table No. 1		
Particulars	Quantity	Price
---	---	---
---	---	---
Total		Rs. 1000
Service charge @ 10%		100
GST @ 18%		
CGST @ 9%		99
SGST @ 9%		99
Total amount payable		1298

Thus, by analysing Table I and Table II we can easily interpret that the implementation of GST is pocket friendly for the customers and they are paying comparatively less as compared to what they were paying in the previous regime. Thus, we can say that it has benefited the consumers of the restaurant services.

*Impact of GST on the Restaurant Owners*

Let's assume an example where the owner is purchasing raw materials like oil, spices, and wheat as they are used generally in the restaurant business and fall under the 5% tax rate category.

TABLE III

Calculation of Input Tax Liability		
Particulars	Pre GST	Post GST
Wheat	500	500
Oil	200	200
Spices	300	300
Total	1000	1000
VAT @ 5%	50	
GST @ 5%		50
Total Input Tax	50	50
Calculation of Output Tax Liability		
Particulars	Billing Pre-GST	Billing Post-GST
Total Bill	2000	2000

Output Tax		
VAT @ 14.5%	290	
Service Tax @ 6%	120	
GST @ 5%		100
Particulars	Billing Pre-GST	Billing Post-GST
Total Output Tax Liability	410	100
Input Credit available (No ITC on GST as 5% is charged and assumed it's a standalone restaurant)	50	-
Final Output Tax Liability/Tax Payable	360	100

Thus, it can be analysed from Table III that the introduction of GST will reduce the tax burden on the restaurant owners also. In the previous taxation system the final tax payable was Rs. 360. Whereas, under the GST regime the tax payable is Rs. 100. Thus, it can be inferred that introduction of GST will bring reasons to rejoice for both the customers and restaurant owners.

## III. CONCLUSION

The GST Council has played a very vital role in the smooth implementation of GST in India by periodically amending GST rates and enforcement procedures to ensure that companies can easily adapt it, and has played a key role in its successful implementation. GST on food service or restaurants has been seen from both ends as a win-win situation whether it is restaurant customers or owner. GST's effect on food services and restaurants has been shown to be a successful Government initiation. Thus, the billing structure for a restaurant has been explained from the perspective of both the parties with the help of a hypothetical bill.

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