

GST Overhaul in Hotel Industry - New Beginnings

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Priyanka Sachdeva

Partner, AMRG & Associates

The Indian hospitality sector is undergoing a significant transformation with the latest GST reforms set to take effect from April 1, 2025. The 55th GST Council Meeting introduced key changes aimed at making taxation more transparent, aligning tax rates with actual business transactions, and simplifying compliance for the industry. Since the inception of GST in July 2017, the hotel industry has undergone multiple changes in tax rates, definitions of taxable supplies, and compliance structures. The latest reforms mark another critical milestone by shifting the tax framework from declared tariff to actual value of supply, bringing hotel taxation closer to real market dynamics and reducing ambiguities surrounding tax liabilities.

When GST was implemented in 2017, the tax rates for hotel rooms were based on the declared tariff, which referred to the advertised or rack rate rather than the actual price paid by customers. The GST rates at the time were structured in a tiered format, with hotel rooms priced below ₹1,000 per night being exempt from tax, those priced between ₹1,000 and ₹2,499 attracting 12% GST, rooms priced between ₹2,500 and ₹7,499 being taxed at 18%, and those with a declared tariff of ₹7,500 or above facing the highest tax rate of 28%. This tax framework was widely criticized as it did not consider seasonal discounts, promotional offers, or last-minute price reductions, leading to discrepancies in tax treatment. Hotels offering discounts found themselves in a situation where they had to pay tax based on a higher advertised rate even if the actual transaction was lower.

Recognizing these concerns, the government introduced a major revision in 2019, simplifying the tax structure and removing the highest 28% GST slab. The revised structure taxed hotel rooms below INR 1,000 at 0%, those between INR 1,000 and INR 7,500 at 12%, and rooms priced above INR 7,500 at 18%. This revision was seen as a relief for luxury hotels, as the previous 28% GST had made high-end accommodations less competitive, particularly for foreign tourists. Later, in 2022, the exemption for hotel rooms priced below INR 1,000 per night was withdrawn, bringing them under the 12% GST slab. This change impacted budget hotels, lodges, and guesthouses that relied on providing affordable accommodations. Many smaller hotels, which were previously outside the GST ambit, had to register for GST, increasing compliance requirements for the segment. However, restaurant services within hotels continued to be taxed based on the concept of specified premises. If any room in a hotel had a declared tariff above INR 7,500 per night, the restaurant services within the hotel premises were subject to 18% GST with input tax credit (ITC). Otherwise, the restaurant services were taxed at a concessional rate of 5% without ITC. This created classification issues, particularly for hotels that had a mix of premium and budget rooms. Hotels often struggled with compliance, as a single high-priced room could push their entire restaurant revenue into the higher tax bracket.

The upcoming GST reform, effective from April 1, 2025, eliminates the concept of declared tariff entirely, replacing it with the actual value of supply. Under this new system, the tax rate applicable to hotel services, including restaurants, will be determined based on the actual sale price of accommodation rather than an artificially set rack rate. Hotels will be required to assess their previous financial year's data to determine their applicable GST rate. If any room was sold for more than INR 7,500 per night in the preceding financial year, the hotel's restaurant services will attract 18% GST with ITC. If all rooms were sold below INR 7,500 per night in the previous year, restaurant services will be taxed at 5% without

ITC. This marks a fundamental shift in how hotel taxation is structured, aligning it more closely with real-world pricing trends.

Hotels will also have the option to voluntarily apply the 18% GST rate with ITC for restaurant services regardless of their room pricing. This option can be exercised by making a declaration before the start of the financial year or at the time of GST registration for new entities. This flexibility allows businesses to optimize their tax structures based on their operational needs, particularly those that rely heavily on input tax credit to offset their GST liability. The government provided a transition period until April 2025 to allow businesses time to adjust their pricing models, reconfigure their accounting systems, and ensure compliance with the new framework.

These reforms present both advantages and challenges for the hospitality sector. The removal of the declared tariff ensures that taxation is more transparent and reflective of actual transactions, preventing unfair tax burdens on hotels that frequently offer discounted rates. Mid-range and budget hotels are expected to benefit significantly from this change, particularly those that price all their rooms below INR 7,500 per night, as they will now be able to charge a lower 5% GST rate on restaurant services. This could enhance their competitiveness and allow for more attractive pricing strategies. Hotels that consistently maintain lower price points may also experience an indirect boost in demand as travelers find them to be more tax-efficient options.

However, the shift to actual value of supply introduces certain operational and compliance complexities. Hotels will now need to reassess their GST obligations on an annual basis, creating a level of uncertainty in their tax planning. Seasonal pricing variations, promotional discounts, and special offers may cause hotels to fluctuate between the 5% and 18% GST brackets for restaurant services from year to year. This could impact long-term pricing decisions, making it harder for hoteliers to plan their taxation strategies. Some hotels may be incentivized to keep their room pricing below INR 7,500 consistently to remain within the lower tax bracket, potentially influencing their overall revenue management approach.

Luxury hotels, where rooms frequently exceed INR 7,500 per night, will likely face continued taxation at 18% on restaurant services. While this does not represent a direct increase in tax liability, it reinforces a higher cost structure for premium hospitality services compared to mid-range hotels. This may influence customer preferences, particularly for travelers who are cost-sensitive and weigh tax implications when selecting accommodations.

Another major area of concern is the classification of bundled services such as banquets, catering, and wellness facilities. Hotels that offer these services alongside accommodation will need to carefully analyze how GST applies to them under the redefined concept of specified premises. Since GST rates are now linked to actual sale values, there could be cases where bundled services inadvertently push a hotel into a higher tax bracket. This could necessitate changes in how hotels structure their pricing and service offerings, requiring a more detailed assessment of taxable transactions. Additionally, compliance burdens are expected to increase, as hotels will need to maintain accurate records of past room sales to determine their tax rates for the following year. This may require hotels to upgrade their accounting systems, enhance their reporting mechanisms, and train staff on the nuances of the new GST framework.

The new GST structure marks a significant step toward aligning taxation with real business conditions, addressing some of the long-standing concerns of the hospitality sector while introducing new compliance challenges. Hotels will need to take a proactive approach in assessing their revenue structures, pricing strategies, and tax planning to optimize their GST liabilities. While the reforms offer greater transparency and potential tax savings for certain segments, they also demand more meticulous financial management to ensure compliance with the evolving regulations. The transition period until April 2025 provides businesses with an opportunity to adapt, but the long-term success of these reforms will depend on how well hotels integrate the new tax framework into their operations. The industry must remain vigilant, staying informed about regulatory developments and leveraging strategic financial planning to navigate the new GST landscape effectively.