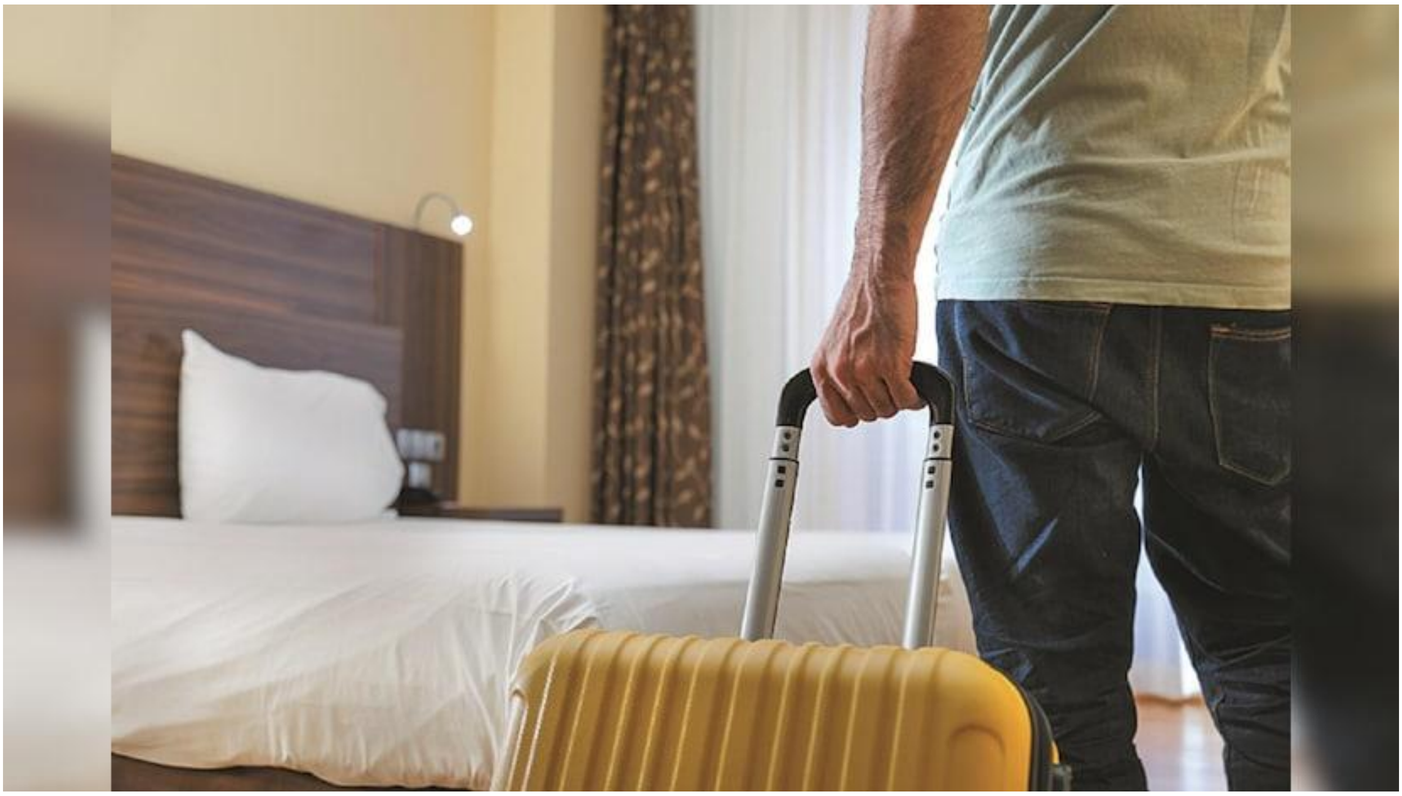
18% GST on dining at 'specified premises' hotels: How it changes your bill

Hotels with room rents under Rs 7,500 in FY25 aren't 'specified premises' unless they opt in voluntarily



hotel

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Planning to dine out? You may have to pay more. Hotels classified as 'specified premises' on April 1 started levying an 18 per cent Goods and Services Tax (GST) on meals served by in-house restaurants.

Hotels not in the specified premises category have the option to either impose the tax or continue with the 5 per cent GST on restaurant bills, according to a government circular.

"The new definition of specified premises means a premises from where the supplier has provided in the preceding financial year hotel accommodation services having the value of supply of any unit of accommodation above Rs 7500 per unit per day," said Shashank Shekhar, partner at DMD Advocates.

Hotels, which want to charge over Rs 7,500 room rent from the next financial year, can file an 'opt in' declaration with the GST authorities between January 1 and March 31. Also, hotels seeking new registration will have to fill in an opt -in declaration within 15 days of obtaining it declaring the said premises as 'specified premises'.

"Previously, restaurants had the option to charge GST at 5 per cent without availing ITC (input tax credit). Under the new provisions, such restaurants now have the option to opt into the 18 per cent GST regime by declaring their premises as specified. While this change increases the tax rate and potentially the cost to customers, it also allows restaurants to avail of input tax credit, which can help offset the higher GST rate," said Kamal Aggarwal, senior advisor, Singhania & Co. (a law firm).

"The impact on end-consumer pricing may vary. With 18 per cent GST rate, restaurants that are eligible for ITC can offset their tax liability, potentially neutralizing the price increase. Therefore, in many cases, the increase in rates may not significantly affect customer prices. However, it would depend on the input cost and value added by the restaurant. In cases where the markup is significant the net cost to the customer will rise since there may not be enough credit available to set off the increased tax liability," said Pankaj Goel, partner, CNK (a CA firm).

What might be the impact of this rule change for the industry?

"This amendment provides flexibility to restaurants to benefit from input tax credits, thereby potentially improving profitability, even as they collect higher GST from customers. If efficiently managed, the input tax credit passed on by suppliers can help reduce the net impact on end consumers," Aggarwal said.