

## GST Implications in Hospitality Sector – GST 2.0

### Rate Rationalisation with restriction to ITC

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The GST Council in its 56<sup>th</sup> meeting has recommended/proposed to reduce the tax rate on specific accommodation services, beauty and physical wellbeing services from 12%, 18% respectively to 5% without Input Tax credit. Further, increment of GST rate from 12% to 18% in case of transportation of passengers' services. It is also proposed that the said amendments will be made effective from 22<sup>nd</sup> September 2025. Notification in this regard was issued on 17<sup>th</sup> September vide NN.15/2025-C.T.(R). Therefore, it is suggested for the business to take proactive measures to ensure the compliance of the amended law, passing on the benefit to consumers, take measures to avoid any losses. This article discusses the implications and key considerations for taxpayers in hospitality businesses and the steps they may need to consider managing compliance effectively.

#### **Key Impact:**

##### **Restaurant Services.**

- Only Restaurants operating in a premises providing the accommodation services which are covered within the meaning of “specified Premises<sup>1</sup>” or “Declared Suo-moto as “specified premises” can charge GST @ 18% on supply of Food and Beverages for human consumption.
- Stand-alone restaurants and restaurants operating in non-specified premises are mandated to supply Food and Beverages by charging GST @ 5% without input tax credit.
- Even though there is no change in rate of GST for Restaurant Services, the GST rates on the inward supplies/raw materials/ingredients of the restaurant has been substantially rationalised which will reduce the cost as well as working capital of the vertical to a certain extent.

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<sup>1</sup> Specified Premises means a property where hotel accommodation service is provided in which any unit of accommodation has been supplied at a value above seven thousand five hundred per unit per day or equivalent in the preceding financial year.

**Accommodation Services.**

Sl.no.	Description	Up to 21 <sup>st</sup> Sep 2025	On or after 22 <sup>nd</sup> Sep 2025	Remarks
1	Unit of accommodation with value of supply less than or equal to ₹ 7,500/- per day or equivalent.	12% with ITC	5% without ITC	i.e., Earlier for a room sold at ₹ 7,500/- – GST customer used to pay ₹8,400/- whereas based on the amendment his outflow will be reduced to ₹ 7,875 <sup>2</sup> /-
2	Unit of accommodation with value of supply above ₹ 7,500/- per day or equivalent.	18% with ITC	18% with ITC	No changes

- The GST rate on the accommodation services provided through any unit of accommodation having value of supply less than or equal to ₹ 7,500/-, has been reduced to 5% from 12%.
- Nevertheless, the said rate reduction comes with a compulsory condition that the input tax credit cannot be availed for providing such accommodation services.
- Therefore, a non-specified premises cannot avail any input tax credit neither pertaining to restaurant business nor accommodation business. Whereas, the specified premises can avail input tax credit pertaining to their restaurant

<sup>2</sup> Assuming the property has not redetermined their room tariffs.

supplies, banquet supplies, convention supplies, accommodation supplies where the value of the unit per day exceeds ₹ 7,500/-.

- In case of specified premises have supplies with both units of accommodation where the value per unit per day may be less than or equal to ₹ 7,500/- or above ₹ 7,500/- then the input tax credit can be availed proportionate to the turnover from those units where the value of supply per day is above ₹ 7,500/-
- Due to the reduction in GST rates, there results in the reduction of outflow of money from the pockets of the final consumer for availing the accommodation services.
- However, such reduction is not necessarily the exact % of rate reduction in GST since there is a direct bar on availment of input tax credit for providing such services.
- Therefore, it is imperative for hotel units to analyse the applicability of such amendments to their property and proactively redetermine the value of supply of their units of accommodation based on the additional cost of input tax credit reversal, customer sensitivity.

**Transportation of Passenger services.**

Sl.no.	Description	Up to 21 <sup>st</sup> Sep 2025	On or after 22 <sup>nd</sup> Sep 2025	Remarks
1	Transport of passengers by any motor vehicle designed to carry passengers where the cost of fuel is included in the consideration charged from the service recipient.	5% without ITC [Except ITC on same line of business is allowed to the extent of its 5%.]	5% without ITC [Except ITC on same line of business is allowed to the extent of its 5%.]	No changes.
2		12% with ITC	18% with ITC	

				procurement of vehicle, its insurance, repairs & maintenance, services etc, then 18% under forward charge should be opted.
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- A sharp shoot in the increment in the GST rate of the renting of motor vehicles seems to impact the masses.
- Taxpayers who are providing the renting services using own vehicles, the option to charge 18% with ITC seems favourable especially when they are planning to procure motor vehicles after 22<sup>nd</sup> September since the entire levy is confined to GST i.e., eligible +can be utilised against the output GST liability and no compensation cess will be leviable.
- Nevertheless, the said options swedges among themselves considering the market sensitivity.

**Beauty and Physical Well-being services.**

Sl.no.	Description	Up to 21 <sup>st</sup> Sep 2025	On or after 22 <sup>nd</sup> Sep 2025	Remarks
1	Beauty and physical well-being services falling under group 99972	18% with ITC	5% without ITC	

- In this category, there is no exception carved out for specified premises as in the case of restaurant services.
- This could be represented before the council and sort the relief. Nevertheless, till such relief or exception, the Gym & spa/salon services provided even in the

specified premises will be taxed at 5% without the benefit of input tax credit received with respect to provision of such services.

#### **Input Tax Credit reversal.**

- It is pertinent to note that the reduced rate of 5% given to accommodation services and beauty & physical well-being services does not only restrict the availment of input tax credit on inward supplies which are directly related to them, but it also mandates to consider the revenue from such verticals as exempt supplies for the apportionment of common credits.
- Such reversal of common credits and direct credits will not only impact the accommodation vertical but also the Food & Beverages verticals in a specified premises. Because the accommodation verticals provide their services in certain scenarios combined with the restaurant verticals i.e., in the cases of package booking to air crew, American Plan, Continental Plan etc.
- Therefore, it would be desirable for the hotels to stream and track their procurements vertical wise at least, if possible. This exercise benefits the business in proportion to their no. of units of accommodation where the value per day will be less than or equal to ₹ 7,500/-.
- Till 22<sup>nd</sup> September 2025, the hotels (specified premises) were restricted from the availment of input tax credit and reversal of input tax credit under section 17 of the CGST Act 2017 only pertaining to their liquor supplies [Restaurant supplies too in case of non-specified premises].
- Nevertheless, with the advent of the GST 2.0 even the accommodation revenue from those units having value less than or equal to ₹ 7,500/- and the spa, salon, gym revenue will add their contribution to the exempt supplies.
- Therefore, continuing the same prices in this area will extremely reduce the outflow of cash from the pocket of customers, but it will have a cut of margins from the hotels which will be impacted from the restriction of input tax credit.
- Section 171 of CGST Act 2017 insists only to pass on the benefit on account of reduction of rate of tax or benefit of input tax credit by way of commensurate reduction and not absolute.
- Therefore, the hotels are at their will to redetermine their rates if their costs have been inflated due to the restriction of such input tax credit.



**Whether ITC reversal required due to reduction of rate:**

- There has been some uncertainty within the industry on whether Input Tax Credit (ITC) already availed needs to be reversed pursuant to the reduction of GST rate from 12% to 5% without ITC.
- It is clarified that such reversal is not required. The ITC already availed constitutes a vested right of the assessee and cannot be denied merely due to a downward revision in the rate of tax. Reversal of ITC is warranted only in cases where the supply of goods/services becomes wholly exempt, which is not applicable in the present case.
- This position has further been clarified in the official FAQs (Question No. 6), thereby reinforcing that no reversal of ITC is mandated in situations of mere rate reduction.

**Whether ITC can be utilized for payment of 5% GST**

- The restriction prescribed for the 5% rate without ITC pertains only to the availment of fresh credit, and not to the utilisation of ITC already available in the electronic credit ledger.
- Accordingly, taxpayers are permitted to use existing ITC balances or ITC availed after 22nd September (post the due reversal under Rule 42/Rule 43) for payment of the 5% GST.
- There is no requirement to discharge the 5% tax liability exclusively through the electronic cash ledger.

**Other Miscellaneous**

- Levy of Compensation Cess is being repealed w.e.f. 22nd September 2025, therein impacting the aerated beverages, carbonated Beverages, caffeinated beverages. This leads to reduction in the cost where such goods supplied in restaurants as a part of services.
- Due to repeal of such Compensation Cess, the GST rate of such goods have been enhanced from 28% GST + 12% Cess to 40% GST (i.e., consolidated the entire levy into GST)
- Nevertheless, such rate changes will have applicability to hotels, if they are making such outward supply as Supply of Goods i.e., without any element of services and sold at MRP.

- Wherever such drinks are served as a part of restaurant services it shall be taxed as “Supply of Services” @ 18% in case of specified premises and 5% in case of non-specified premises.
- Tobacco products will continue to attract compensation cess, with no changes effective as of 22<sup>nd</sup> September. Hotels may maintain their current practices in this regard.

**Conclusion.**

The GST rate rationalisation in hospitality sector is a double-edged sword. While it reduces tax outflow on outward supplies intending to benefit and delight the ultimate consumer, it also restricts in ITC availment which requires the business to be vigilant to redetermine their cost. Hotels should proactively take action plans pertaining to such changes to avoid any business disruption either due to non-compliance or customer sensitivity.

A proactive compliance strategy, backed by detailed cost-benefit analysis, is essential for taxpayers in hospitality sector to fully leverage the benefits of the rate change resulting in savings in the pockets of their guests while minimizing margin cut in their business.

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