



**Changes in Hospitality Sector on account of GST 2.0 – All you need to know  
(Practical FAQs)**



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**Introduction:**

The 56th GST Council meeting has ushered in significant reforms for the hospitality sector under GST 2.0, effective from 22<sup>nd</sup> September 2025. With rate rationalisation measures such as reducing GST on select accommodation, beauty, and wellness services while simultaneously restricting input tax credit (ITC), the changes aim to lower consumer outflow but compel businesses to re-examine pricing and compliance strategies. While the reforms promise immediate relief to guests through reduced tax incidence, they also introduce challenges for hotels and restaurants in managing ITC reversals, cost absorption, and margin sustainability. A proactive compliance and cost-alignment approach will therefore be critical for hospitality businesses navigating this transition. This FAQ-based note seeks to clarify the legal, procedural, and practical aspects of GST 2.0 on Hospitality industry.

**Q1. What is the effective date for the new GST 2.0 changes in the hospitality sector?**

**A:** The new rates and restrictions are effective from **22<sup>nd</sup> September 2025**, as per Notification 15/2025-C.T.(R).

**Q2. What is the main GST change affecting hotels as of 22<sup>nd</sup> September 2025?**

**A:** Hotel room tariffs up to ₹7,500 per day or equivalent will now attract **5% GST without input tax credit (ITC)**, down from **12% with ITC**. Tariffs above ₹7,500 stay at 18% with ITC.

**Q3. What does “without ITC” mean in this context?**

**A:** It means that for room tariffs ≤ ₹7,500 per night, the hotel cannot claim input tax credit for the GST paid on its inputs, input services and capital goods under that service segment. So, although the GST rate is lowered, the hotel bears the full GST cost of inputs in its pricing.

**Q4. Whether the input tax credit is available to the taxpayer who is the business of reselling of the accommodation services?**

**A:** ITC on accommodation services shall be available only if the value of supply of such unit of accommodation is above ₹7,500/- and in all other cases ITC is restricted. No relaxation for availing the ITC of same line of business is given to accommodation services unlike the transportation services.

**Q5. Can a recipient avail ITC on accommodation services where the applicable GST rate is 5%?**

**A:** There is no change in the law from the perspective of recipient in this GST 2.0. As long as the services are received in the course or furtherance of business and all the conditions of Section 16 are satisfied, input tax credit can be availed and utilised by the registered recipient subject to section 17.

**Q6. Is there any change in rate of tax for restaurants under GST 2.0?**

**A:** No there is no change in the rate of tax for the restaurant services proposed in GST 2.0. However, the tax rate has been rationalised to 5% for most of the food and beverages used for human consumption which are supplied as goods.

**Q7. How to determine the time of supply and the rate of tax in case of the transitional supplies (occurring through 21<sup>st</sup> September 2025)**

**A:** Section 14 of CGST Act 2017 applies to determine the time of supply in case of such transitional transactions as follows:

<b>Scenario</b>	<b>Condition</b>	<b>Time of Supply</b>	<b>Applicable Rate</b>
Services supplied before 22 <sup>nd</sup> September 2025	(i) Invoice issued & payment received after change	Earlier of date of payment or Invoice	New Rate
	(ii) Invoice issued before change & payment received after change	Date of Invoice	Old Rate
	(iii) Payment received before change & invoice issued after change	Date of Payment	Old Rate
Services supplied after 22 <sup>nd</sup> September 2025	(i) Payment received after change & invoice issued before change	Date of Payment	New Rate
	(ii) Invoice issued & payment received before change	Earlier of date of payment or Invoice	Old Rate
	(iii) Invoice issued after change & payment received before change	Date of Invoice	New Rate

**Q8. Does this amendment impact the supplies by Hostels / Paying Guest facilities?**

**A:** It is pertinent to note that the 56<sup>th</sup> council has recommended, and the corresponding notification has been issued to amend the tax rates for accommodations services which are classifiable under HSN 9963. Therefore, it is

rudimentary to determine the underlying supply whether it is accommodation services under HSN 9963 or renting of residential property classifiable under HSN 9972. Accordingly, the GST liability has to be assessed.

***Q9. What is the applicable GST for accommodation services provided by hostels/paying guests facilities?***

**A:** If the accommodation services are provided by hostels/paying guest facilities, then exemption from payment of GST is available if the value of supply per person per month does not exceeds ₹ 20,000/- provided such accommodation services is provided for a continuous period of ninety days. The changes introduced in GST 2.0 do not affect this exemption.

***Q10. What is the amendment proposed in 56th Council Meeting for restaurant services?***

**A: Existing Law:**

Restaurants operating in specified premises (hotels with declared specified premises): Restaurants can charge **18% with availing the benefit of ITC.**

Restaurant operating in non-specified premises restaurants: Must charge **5% without availing the benefit of ITC.**

Proposed Clarification: Stand-alone restaurants (includes even if it is an additional place of business but independent to the specified premise) cannot declare themselves as specified premises and have to mandatorily changes 5% without availing the benefit of ITC. Therefore, the option to charge 18% GST is reserved only to those restaurants which operates within the properties which qualifies as specified premise.

***Q11. What is a specified premise?***

**A:** W.e.f. 1st April 2025, a property has to determine itself every financial year whether it falls within the criteria of a specified premise. A property qualifies as a specified premises for the financial year, if it satisfies either of the following:

- a) During the preceding financial year, any accommodation unit in that premises should have been supplied at a value above seven thousand five hundred per day or equivalent (or)
- b) A premises where the registered person voluntarily declare his property to be a specified premises (irrespective of the fact whether such property has any unit of accommodation having a value of supply above seven thousand five hundred or not) during 1st Jan to 31st March of the preceding financial year (in case of existing registration) / within 15 days from the date of acknowledgment for registration application (in case of new registration).

***Q12. What will the GST rate at restaurant operating in a specified premises serving to guests staying in rooms with a value  $\leq$  ₹ 7,500/- or walk in customers?***

**A:** If the restaurant is operating within a specified premises, then the food and beverages supplied by restaurant shall be taxed @ 18%. Therefore, even if the room tariff is taxed @ 5% (being the value of such unit is less than or equal to ₹ 7,500/- per day), the restaurant supplies shall be taxed @ 18% provided the property is classified as specified premises.

***Q13. What will be the GST rate on the complimentary breakfast provided along with the room tariff?***

**A:** If food and beverages supplied as a package bundling with the accommodation services, it will be considered as Composite supplies. Out of the said bundled supplies, the predominant principal supply has to be determined. Thereby, the tax shall be levied on the entire bundle as the supply of such principal supply. Since accommodation is usually the principal supply, the GST rate applicable to accommodation will apply to the entire bundle (including food and beverages).

***Q14. Do hotels need to proportionately reverse ITC when they have both types of rooms (below and above ₹7,500)?***

**A:** Yes. ITC can only be availed proportionately to the turnover from units charging 18% GST. Units at 5% are treated as **exempt supplies** for ITC apportionment. The reversal towards exempted supplies should be done as per the procedure prescribed under Rule 42 of CGST Rules for inputs and input services and as per Rule 43 with respect to Capital goods.

***Q15. Why ITC reversal required even though 5% is charged on rooms below or equal to ₹7,500/-***

**A:** In accordance with Explanation (iv) of Notification 11/2017 – CGST (Rate), wherever a rate has been prescribed in the notification subject to the condition that credit of input tax charged on goods or services used in supplying the service has not been taken, it shall mean that such ITC restricted turnover should be considered as exempted turnover.

***Q16. How are additional bed charges treated for GST purposes in hotel accommodation?***

**A:** If the room tariff including additional bed charges exceeds ₹7,500 per day, GST is applicable at 18% with ITC. If the room tariff including additional bed charges is ₹7,500 or less per day: GST is applicable at 5% without ITC.

***Q17. Whether ITC reversal is required in restaurants operating in specified premises on account of this GST 2.0?***

**A:** Restaurants operating within specified premises are required charge GST @ 18% with ITC. However, if such restaurants provide their supplies under American Plan, Continental plan to their inhouse guests where the unit of accommodation is up to ₹ 7,500/-, the proportionate input tax credit may not be available owing to Explanation 4 of notification 11/2017-C.T.(R) as amended. Therefore, the ITC directly relating such supplies are not allowed to be availed and in case of common credits, they have to be reversed based on section 17 of the CGST Act 2017.

**Q18. Has there been any change in the rate of tax on banquet services (where renting of premises along with food is provided) under GST 2.0?**

**A:** No, there is no change in the rate of tax on banquet services under GST 2.0. Banquet services are considered a *composite supply* involving renting of premises together with supply of food and beverages. The applicable GST continues to be as follows:

- **18% with Input Tax Credit (ITC)** – when the services are provided in *specified premises* or by a **supplier** located in specified premises.
- **5% without ITC** – in all other cases.

**Q19. Under GST 2.0, is there any change in the rate of tax if a hall is rented out only for use of premises (without providing food or catering services)?**

**A:** No, there is no change in the tax rate for such services under GST 2.0. Where the hall is given purely on rent without any element of food or catering, the supply is classified under **Service Code 9972**. The applicable GST rate remains **18% with Input Tax Credit (ITC)**.

**Q20. Do we need to reverse ITC already claimed due to the GST rate cut?**

**A:** No. ITC already availed is a **vested right**. Reversal is needed only if services become wholly exempt, which is not the case here.

**Q21. Can existing ITC be used to pay GST at 5%?**

**A:** Yes. The restriction is only on availing **fresh ITC**. Any balance in the electronic credit ledger can still be used to discharge 5% GST. There is no provision proposed or inserted with respect to lapsing of the existing credits.

**Q22. Can a supplier of accommodation services choose to charge GST at 18% with Input Tax Credit (ITC) even when the tariff/room rent per unit per day is less than or equal to ₹7,500?**

**A:** No, such an option is not available. As per **Notification No. 11/2017 – Central Tax (Rate)**, when the value of accommodation per unit per day is less than or

equal to ₹7,500, the applicable GST rate is **5% without ITC**. In this scenario, it is *mandatory* to charge GST at 5% and the supplier cannot opt to pay 18% with ITC.

***Q23. What is the GST treatment for beauty, spa, and gym, physical wellness services in hotels?***

**A:** The GST rate is reduced from **18% with ITC** to **5% without ITC**, even for services inside specified hotel premises. No ITC can be claimed on inputs or services or capital goods used for these services.

***Q24. What is the GST rate applicable to the ecommerce operator providing such Beauty and Physical well-being facilities?***

**A:** The rate of GST applicable on the supplies provided by such e-commerce aggregator depends upon the nature and scope of the supplies provided by such e-commerce operator, if it is the nature of the beauty and physical well-being services, then the applicable GST rate would be 5% and in case of support services or facilitation services, the appropriate GST rate would be applicable based on its classification.

***Q25. What are the changes in passenger transport services (like cab rentals by hotels)?***

**A: If fuel cost is included:** Still **5% without ITC**. However, ITC is not restricted on the same line business even though covered under 5% without ITC. **If ITC is availed (vehicle purchase, insurance, repairs),** the rate increased from **12% to 18% with ITC**.

***Q26. How are aerated/caffeinated beverages impacted under GST 2.0?***

**A:** Earlier it was **28% GST + 12% Cess** and now **40% GST (no separate cess)** When supplied as part of restaurant services → taxed at **18% in specified premises** or **5% in non-specified premises**.

***Q27. Do these changes affect liquor and tobacco sales in hotels?***

**A: Liquor** is still outside GST, taxed under state excise laws and **Tobacco products** continue to attract GST as well as compensation cess like earlier.

***Q28. How will package bookings (like Room with Hall or Room with food, etc.) be treated?***

**A:** Hotels need to carefully **segregate supplies** since accommodation below ₹7,500 and F&B/banquet/conference services may attract different GST rates. ITC reversal rules also apply.

***Q29. Will customers see lower bills after GST 2.0?***

**A:** Yes, especially for accommodation below ₹7,500. But since ITC is restricted, hotels may **increase base prices** to cover margin loss, so the benefit may not be a full 7% reduction.

***Q30. What compliance challenges should hotels prepare for?***

**A:** The hotels should prepare for the following in light of changes on account of GST 2.0

- **ITC tracking & reversal** (Rule 42/43 apportionment).
- **Repricing strategies** to balance cost and customer sensitivity.
- **Proper invoicing** to avoid disputes on applicable rates by updating billing software & POS systems.
- **Internal segregation of revenue streams** (room, restaurant, spa, etc.).
- Train staff on new rate applicability.
- Review **contracts with corporates, airlines, event clients** to incorporate GST 2.0 changes.

***Q31. What impact does these amendments have on the cross-charge transactions between the hotel groups?***

**A:** Till 21<sup>st</sup> September, the specified premises had a leverage on cross charge between their group entities due to the proviso to rule 28 of CGST Rules 2017 read with section 15 of the CGST Act 2017.

Nevertheless, w.e.f. 22<sup>nd</sup> September, the specified premises having unit of accommodation with value of supply per day up to ₹ 7,500/- or specified premises providing the beauty and physical well-being services, cannot continue the benefit of such proviso as they are not entitled to claim the 100% ITC.

Therefore, in such scenarios, the management should be assiduous in determining the valuation between the related persons.

**Q32. What impact does these amendments have for tour operators?**

**A:** There are no direct amendments in the law, with regard to tour operator. Nevertheless, the reduction in GST rates pertaining to hospitality industry as discussed above, will result in reduction of the cost of business to the tour operator to the extent of business with units of accommodation with value up to ₹ 7,500/-

**Q33. What about bookings made before 22<sup>nd</sup> September but actual stay / check-in after 22<sup>nd</sup> September?**

**A:** The rate applicable will depend on the *time of supply* rules under GST. Since the service provided after the rate change and invoice raised after the rate change, the new rate needs to be applied.

**Conclusion**

The GST 2.0 reforms mark a pivotal shift for the hospitality industry, offering customers some immediate tax relief while compelling businesses to adopt sharper compliance, costing, and operational strategies. With reduced rates on accommodation and wellness services balanced against restrictions on input tax credit, hotels, restaurants, and allied service providers must carefully recalibrate pricing models, ensure accurate ITC reversals, and strengthen internal systems.

The transitional provisions, classification nuances, and compliance challenges highlight the need for proactive planning and transparent communication with clients and



customers alike. Ultimately, those who swiftly align their practices with the revised framework will be better positioned to sustain margins, enhance competitiveness, and deliver value under the evolving GST landscape.

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