

Removal of tax credit leaves restaurant industry with bitter taste

The Indian restaurant and food service industry has had a bumpy ride over the last 20-odd months and more so after demonetization. While eateries were coming to terms with the note ban, those located on highways were served with another jolt in the form of a liquor ban starting April 01, 2017. This was followed by implementation of the goods and services tax (GST) from July 01, 2017 that led to major operational complications for the business owners.

While there are challenges, industry experts feel GST has brought in lakhs of goods and service providers into its fold and the increased collections from these new taxpayers have been substantial, which is great for the country. Confusion abounded as several restaurants said they would raise prices to make up for the loss of input tax credit — the tax paid on inputs, which they were previously allowed to offset against their own GST liability. Losing this facility would increase their operating costs, restaurateurs claimed. Tax experts estimate that despite the potential price hike on menus, the implementation of the 5% GST rate on restaurants should still work out to be cheaper for customers compared with the 18% tax levied previously.