GST tweak to hit restaurants' expansion plans

The withdrawal of input credit under the goods and services tax for restaurants will adversely affect their expansion plans this financial year. In the absence of input credit for expenses such as rent and other capital costs that attract GST of 18% to 28%, opening a new outlet has become substantially more expensive.Since the GST paid on all input goods and services is no more available as credit, all taxes paid on input of goods and services, factor in as additional cost of the project. This withdrawal of input tax credit has impacted the viability of new stores and expansion significantly. This will have a cascading negative impact on new investments being made by the chain as payback period is getting extended.

The GST rate for restaurants was slashed to 5% from 18% in November last year, along with the removal of input credit. While the industry has asked the finance ministry to allow input tax credit on rent, some chains said they don't foresee changes to the existing structure before the general elections next year.