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An Analytical Study of GST's Impact on the Hotel Industry in NCR: A Comparative Study of Pre-GST and Post-GST Periods

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Abstract
Background: *The Goods and Services Tax (GST), implemented on 1 July 2017, unified India's fragmented central and state levies (service tax, VAT, luxury tax, etc.) under "One Nation, One Tax, One Market". The hotel industry, a cornerstone of tourism, has been profoundly affected. Before GST, hotels faced cascading taxes varying by state, creating high compliance costs and opaque pricing. The National Capital Region (NCR) – Delhi, Gurugram, Noida, Ghaziabad, Faridabad – is a critical hub for business and leisure travel, hosting branded, heritage, and budget hotels. Thus, GST's impact on NCR hotels warrants focused investigation.*
Objective: *This study compares pre-GST and post-GST periods to evaluate GST's impact on NCR's hotel industry. It examines tax structure changes, assesses key performance indicators (occupancy, ADR, RevPAR, profitability), and identifies challenges and opportunities from the September 2025 rate rationalization.*
Methodology: *A systematic comparative analysis uses legislative notifications, CBIC circulars, industry reports (FHRAI, HAI), financial statements of NCR hotel chains, and peer-reviewed studies (2015–2026). The study contrasts the pre-GST multiple-tax regime with evolving GST slabs, focusing on NCR.*
Key Findings: *GST has streamlined India's indirect tax system. The 56th GST Council decision (22 September 2025) is the most significant: rooms ≤ Rs.7,500 now attract 5% GST without input tax credit (ITC) (down from 12% with ITC); rooms > Rs.7,500 remain at 18% with full ITC. In NCR (72.9% occupancy in 2024), the 5% slab cuts consumer costs by ~6.25% and is expected to boost mid-market demand by 5–10%. However, ITC removal for budget and mid-market hotels poses a serious challenge: net GST outflow per room night rises 150%, reducing net profit margins by an estimated 3–5 percentage points. Critics note the Rs.7,500 threshold is outdated due to ~40% cumulative inflation since 2017 and should rise to Rs.10,000–Rs.12,000. FHRAI and HAI advocate for a uniform 12% GST with ITC across all hotel categories.*
Implications: *This study offers policymakers a comparative framework to refine GST rates and ITC rules, provides NCR hoteliers actionable guidance on pricing, cost optimization, and strategic upgrading, and highlights structural inequities needing regulatory attention for long-term industry growth.*

Keywords: *GST, Hotel Industry, NCR, Pre-GST, Post-GST, Input Tax Credit (ITC), Occupancy Rate, Average Daily Rate (ADR), Revenue Per Available Room (RevPAR), Federation of Hotel & Restaurant Associations of India (FHRAI), Hotel Association of India (HAI), Tax Reform, Hospitality Sector.*

1.Introduction

1.1 Background of the Study

The Goods and Services Tax (GST), implemented on 1 July 2017, is widely recognized as India's most significant indirect tax reform since independence. It subsumed over a dozen central and state levies into a single, nationwide tax, operating on the principle of "One Nation, One Tax, One Market". For the hotel industry, which forms a vital part of India's tourism and hospitality sector, the transition from a fragmented pre-GST regime to a unified GST system has been transformative. Prior to 2017, hotel operators had to comply with service tax (central), luxury tax (state), VAT (state), entertainment tax, and local levies such as octroi. Each tax had its own registration, return filing, and assessment procedures, leading to high compliance costs and administrative burdens (Tiwari, 2023; Jadav et al., 2024).

The hotel industry in India contributes significantly to employment, foreign exchange earnings, and infrastructure development. According to a report by Horwath HTL (as cited in BW Hotelier, 2025), India's branded hotel supply reached 196,464 rooms across 2,008 hotels in 337 locations during the 2024-25 fiscal year, with a recorded occupancy of 68%. In 2024, the national occupancy rate was 63.9%, with an average daily rate (ADR) of Rs.7,951 and a revenue per available room (RevPAR) of Rs.5,000, marking the first time since 2008 that RevPAR crossed the

Rs.5,000 threshold, with 10.7% year-on-year growth (Horwath HTL, 2025).

The National Capital Region (NCR), encompassing Delhi, Gurugram, Noida, Ghaziabad, Faridabad, and adjacent areas, serves as a primary economic and tourism gateway. It hosts a dense concentration of branded hotels such as The Leela, Oberoi, ITC Maurya, Hyatt, Marriott, and Accor, as well as heritage properties and budget accommodations. In 2024, the average occupancy in Delhi's hotel market was approximately 72.9%, with an ADR of nearly Rs.10,273, driven by strong corporate travel, diplomatic events, and MICE tourism (Meetings, Incentives, Conferences, Exhibitions) (JLL, 2024). The region's high operational costs (real estate, labour, utilities) amplify the consequences of any tax policy change. Therefore, an analytical study comparing pre-GST and post-GST periods with special reference to NCR is both timely and necessary.

1.2 Definition of GST and Taxes Subsumed

GST is a comprehensive, multi-stage, destination-based tax levied on every supply of goods and services except a few exempted items. It is governed by the Central Goods and Services Tax Act (CGST), the State Goods and Services Tax Act (SGST), and the Integrated Goods and Services Tax Act (IGST) for inter-state supplies. For the hotel industry, the major pre-GST taxes subsumed are presented in Table 1.1.

Table 1.1: Major Pre-GST Taxes Subsumed in the Hotel Industry

Tax Component	Levying Authority	Typical Rate / Mechanism	Impact on Hotel Operations
Service Tax	Central Government	15% on declared tariff with 40% abatement → effective ~9%	Levied directly on room rent
Value Added Tax (VAT)	State Governments	12% – 14.5% on food, beverages, and goods sold	Added to every F&B bill
Luxury Tax	State Governments	5% – 15% depending on state and tariff bracket	Directly on room tariff
Central Excise	Central Government	Variable on manufactured goods (e.g., bakery items)	Embedded in kitchen costs
Entertainment Tax	State Governments	10% – 30% on amusement parks, cultural shows	Affected bundled packages
Octroi / Entry Tax	Local Bodies	1% – 5% on entry of goods into municipal limits	Increased procurement costs

By subsuming all these levies into a single tax with uniform rules, the GST aimed to reduce compliance costs, eliminate the cascading effect of tax-on-tax, and create a seamless national market.

1.3 Hotel Industry in NCR: Profile and Significance

The NCR is the largest hotel market in northern India and one of the most competitive in the country. Table 1.2 summaries its key performance indicators compared to national averages.

Table 1.2: NCR versus National Hotel Key Performance Indicators (2024)

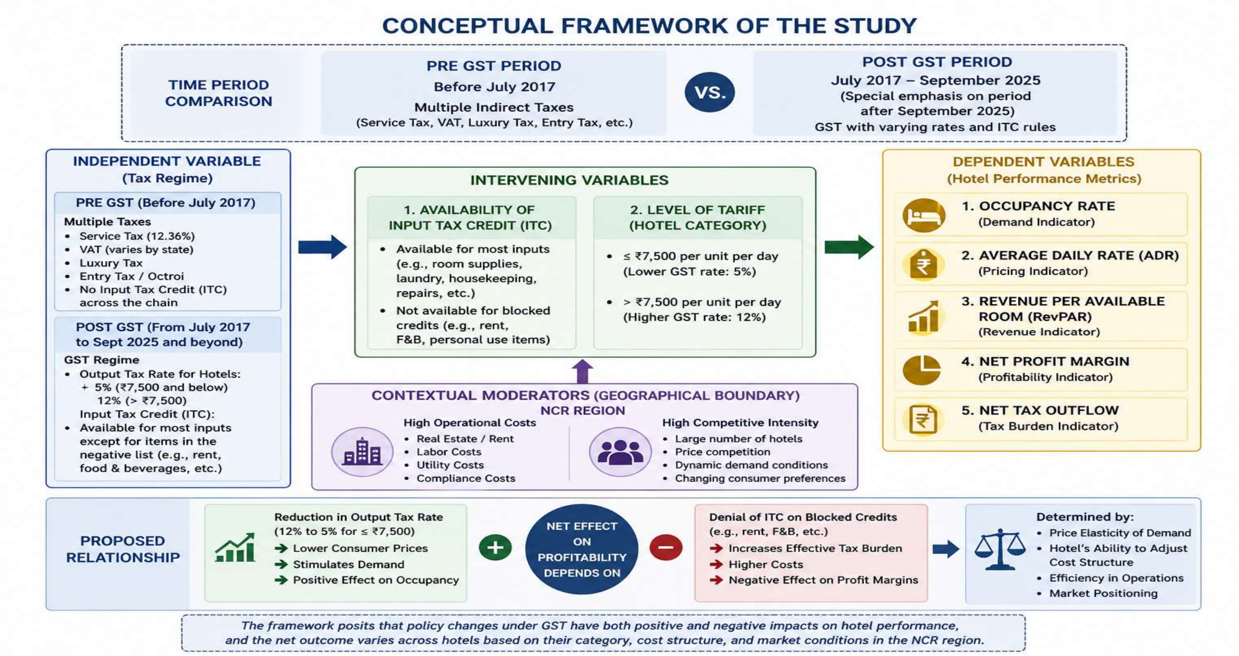
Indicator	NCR (Delhi NCR)	National Average	Absolute Difference	Percentage Difference
Occupancy Rate	72.9%	63.9%	+9.0 percentage points	+14.1%

Indicator	NCR (Delhi NCR)	National Average	Absolute Difference	Percentage Difference
Average Daily Rate (ADR)	Rs.10,273	Rs.7,951	+Rs.2,322	+29.2%
Revenue Per Available Room (RevPAR)	Approximately Rs.7,500	Rs.5,000	+Rs.2,500	+50.0%
Share of Branded Hotels	Approximately 22% of national inventory	100% (baseline)	–	–

The region benefits from diplomatic, corporate, and leisure travel, but also faces intense competition and high input costs. Therefore, any change in tax policy has amplified effects in NCR. The hotel industry in NCR also employs a significant workforce, with estimates suggesting over 500,000 direct and indirect jobs are linked to the hospitality sector in the region. This makes the tax treatment of hotels not merely a fiscal issue but also a matter of employment and regional economic development.

1.4 Conceptual Framework of the Study

The conceptual framework of this study is built on a comparative analysis between two distinct time periods: the pre-GST period (before July 2017) and the post-GST period (from July 2017 to September 2025, with special emphasis on the period after September 2025). The independent variable is the tax regime (pre-GST multiple taxes versus GST with varying rates and ITC rules). The dependent variables are hotel performance metrics, including occupancy rate, ADR, RevPAR, net profit margin, and net tax outflow. The intervening variables include the availability of input tax credit and the level of tariff (whether a hotel falls into the ≤ Rs.7,500 or > Rs.7,500 category). The NCR region serves as the geographical boundary, with its high operational costs and competitive intensity acting as contextual moderators. The framework posits that a reduction in output tax rate (from 12% to 5%) reduces consumer prices and stimulates demand (positive effect on occupancy), but the simultaneous denial of ITC increases the hotel's effective tax burden (negative effect on profit margins). The net effect on profitability depends on the price elasticity of demand and the hotel's ability to adjust its cost structure.



2.0 Literature Review and Theoretical Foundations

2.1 Pre-GST Tax Structure in the Indian Hospitality Sector

Prior to July 2017, the Indian hospitality sector operated under a fragmented, multi-layered tax architecture that levied both central and state taxes on the same transaction, often leading to a cascading effect (tax on tax). The service tax on hotel accommodation was levied at 15% on the declared tariff, but hotels were allowed an abatement of 40%, meaning that service tax was effectively payable on only 60% of the tariff, resulting in an effective rate of 9%. This abatement was intended to recognize that a portion of the room tariff covered the value of goods and services other than the accommodation itself, such as food, beverages, and electricity. However, this abatement also meant that hotels could not claim credit for the tax paid on inputs used to provide those goods and services, creating a hidden burden (Tiwari, 2024). State governments levied luxury tax on accommodation. The rates varied widely: Delhi levied a luxury tax of 15% on rooms with a tariff above a certain threshold, while Himachal Pradesh levied between 5% and 10%, and Rajasthan had a tiered system up to 12%. VAT was applied on food and beverages served in hotel restaurants, typically at rates of 12% to 14.5%, depending on the state. Furthermore, hotels selling packaged goods, souvenirs, or alcohol were subject to additional VAT or excise duties. This multiplicity of taxes not only increased compliance costs—requiring multiple registrations, returns, and audits—but also made hotel bills confusing for guests, who often could not understand why the final amount differed so markedly from the published room tariff. Table 2.1 provides an illustrative calculation of the pre-GST tax burden for a hotel room priced at Rs.5,000 per night in a typical state.

Table 2.1: Illustrative Pre-GST Tax Burden for a Rs.5,000 Hotel Room

Tax Component	Rate / Mechanism	Calculated Amount (Rs.)	Remarks
Service Tax (Central)	15% on 60% of tariff (40% abatement)	5,000 × 60% = 3,000; 15% of 3,000 = 450	Effective rate 9%
Luxury Tax (State, assumed 10%)	10% on full tariff	500	Varies from 5% to 15% by state
VAT on Food & Beverages (assumed Rs.4,000 spend)	12.5% on F&B bill	500	On restaurant bill
Total Tax Component		**1,450**	**Approximately 29% of room tariff**
Final Customer Payment	Room tariff Rs.5,000 + taxes Rs.1,450	Rs.6,450	

From a policy perspective, the pre-GST regime suffered from a lack of uniformity, causing competitive disadvantages for hotels located near state borders, where guests could drive a few kilometers to a lower-tax jurisdiction. For example, a hotel in Gurugram (Haryana) might face a different luxury tax rate compared to a hotel just across the border in Delhi, distorting competition based on tax arbitrage rather than service quality.

2.2 Evolution of GST Rates for Hotel Accommodation (2017–2026)

The GST implementation journey has been dynamic, with the GST Council frequently revising rates and rules in response to industry feedback and economic conditions. At the time of introduction on 1 July 2017, a four-slab structure (5%, 12%, 18%, 28%) was adopted for goods and services. Table 2.2 presents the complete chronological evolution of GST rates applicable to hotel accommodation from 2017 to 2026.

Table 2.2: Chronological Evolution of GST Rates on Hotel Accommodation (2017–2026)

Effective Period	Tariff per Night (Rs.)	GST Rate	Input Tax Credit (ITC) Status	Key Remarks and Industry Response
1 July 2017 – 26 July 2018	< 1,000	Nil	Not Applicable	Exemption for very low tariffs
	1,000 – 2,499	12%	Allowed	Budget hotels; industry satisfied
	2,500 – 7,499	18%	Allowed	Mid-market hotels criticised high rate
	≥ 7,500	28%	Allowed	Luxury segment at highest slab
27 July 2018 – 30 September 2019	< 1,000	Nil	Not Applicable	
	1,000 – 7,499	18%	Allowed	All rooms above Rs.1,000 merged into 18%; smaller hotels protested
	≥ 7,500	28%	Allowed	Luxury retained 28%
1 October 2019 – 17 July 2022	< 1,000	Nil	Not Applicable	
	1,001 – 7,500	12%	Allowed	12% slab reintroduced for mid-range; industry welcomed
	> 7,500	18%	Allowed	28% slab abolished; luxury moved to 18%
18 July 2022 – 21 September 2025	≤ 7,500	12%	Allowed	Threshold simplified to exactly Rs.7,500
	> 7,500	18%	Allowed	Stable period of three years
Effective 22 September 2025	**≤ 7,500**	**5%**	**Not Allowed**	**Biggest rate cut; ITC withdrawn as compensating measure**
	> 7,500	18%	Allowed	Luxury retains 18% with full ITC

The most dramatic and recent change occurred following the 56th GST Council meeting in September 2025, with the new rates taking effect on 22 September 2025. Under this change, frequently referred to as "GST 2.0" in industry parlance, hotel rooms with a transaction value of Rs.7,500 or less per unit per day now attract a GST of 5% without any input tax credit. Rooms above Rs.7,500 continue to attract 18% GST with full ITC. The government estimated that for a Rs.5,000 hotel room, the tax component would fall from Rs.600 (12%) to Rs.250 (5%), resulting in a saving of Rs.350 per night, or a reduction of approximately 6.25% in the final bill for the consumer. The government's stated objective was to boost domestic tourism, formalize the largely cash-based budget hotel segment, and make Indian hotel stays more competitive internationally. However, the withdrawal of ITC was justified on the grounds that at a low 5% rate, the government could not afford to allow ITC, and that many small hotels in the budget segment were not claiming ITC anyway. This assumption has been hotly contested by industry associations, as documented in the following section.

2.3 Critical Industry Voices: FHRAI and HAI

The Federation of Hotel & Restaurant Associations of India (FHRAI) represents over one lakh hotels and five lakh restaurants across the country. In its official representations to the GST Council and the Ministry of Finance, FHRAI has consistently highlighted several concerns. First, FHRAI points out that approximately 90% of India's hotels operate with room tariffs below Rs.7,500 and are therefore now subject to 5% GST without ITC. For these hotels, the loss of ITC on expenses such as housekeeping supplies, food ingredients, uniforms, linen, laundry services, utilities (electricity, water), and commissions paid to online travel agencies (OTAs) becomes a direct addition to costs. Since these hotels cannot increase room tariffs arbitrarily due to price sensitivity in the budget segment, their profit margins are squeezed (FHRAI, 2025). Second, FHRAI has argued that the Rs.7,500 threshold is outdated. The threshold was arguably derived from the pre-GST service tax exemption limit of Rs.1,000 per day, scaled up for inflation and the switch to GST. However, with cumulative inflation of approximately 40% to 50% from 2017 to 2025, a threshold of Rs.10,000 to Rs.12,000 would be more appropriate. FHRAI has therefore demanded that the threshold for the 5% slab be raised, and that ITC be restored for hotels in this slab. Table 2.3 summaries the key demands of FHRAI alongside the government's stated position.

Table 2.3: FHRAI Demands versus Government Position on GST for Hotels

FHRAI Demand	Government's Stated Position	Current Status as of 2026
Restore input tax credit for hotels in the 5% slab	ITC not feasible at 5% rate; would reduce government revenue significantly	Under discussion; no decision yet
Raise threshold from Rs.7,500 to Rs.10,000–Rs.12,000	Inflation adjustment is under review; possible in next Council meeting	Likely to be considered in 2026
Uniform 12% GST with ITC across all hotel categories	Would increase tax on budget segment (from 5% to 12%)	Not accepted so far
Separate GST treatment for food and beverage services from accommodation charges	Complex to implement; could lead to classification disputes	No decision; under examination

The Hotel Association of India (HAI), which represents larger hotel chains and luxury properties, has taken a slightly different stance. HAI has consistently advocated for a uniform 12% GST rate across all hotel categories, with full ITC. According to HAI, a single moderate rate would simplify compliance, eliminate the threshold distortion (where a room priced just above the limit bears a much different effective tax burden after ITC considerations), and allow all hotels to compete on an equal footing (HAI, 2025). HAI notes that under the current dual regime, a luxury hotel charging Rs.8,000 per night pays 18% GST but can claim ITC on all its inputs, while a mid-market hotel charging Rs.7,500 pays only 5% but loses ITC. When the effective tax burden is calculated after adjusting for ITC, the difference may not be as large as the nominal rates suggest, and in some cases the 5% slab could be more burdensome. Empirical studies cited by industry bodies suggest that for a typical mid-market hotel, input taxes on goods and services amount to between 8% and 12% of revenue. Without ITC, these become an additional cost, turning the 5% GST into an effective total tax burden of 13% to 17%, which is not necessarily lower than the 18% with ITC that luxury hotels pay.

2.4 Theoretical Frameworks for Analyzing Tax Impact

To understand how a tax reform such as GST affects the hotel industry, several theoretical frameworks are useful. The theory of tax incidence, rooted in public finance, examines how the burden of a tax is distributed between consumers and producers. In a competitive market, a tax on hotel accommodation can be passed forward to guests in the form of higher prices, or borne backward by hoteliers in the form of lower profits, depending on the price elasticity of demand. For budget and mid-market hotels catering to price-sensitive domestic tourists, demand is likely to be elastic, meaning that a reduction in tax (from 12% to 5%) should lead to a substantial increase in quantity demanded (occupancy). However, the withdrawal of ITC increases the hotel's cost of inputs, which may partially offset the benefit of the lower output tax. The net effect on prices and profits depends on the relative magnitude of these two effects.

Optimal commodity tax theory, originally formulated by Ramsey (1927), suggests that goods and services with more elastic demand should be taxed at lower rates to minimise deadweight loss. Tourism and hotel stays are generally considered to have relatively elastic demand, especially in the domestic leisure segment, supporting the case for a lower GST rate. The concept of cascading versus non-cascading taxation is central to GST design. By allowing ITC on inputs, a VAT (or GST) eliminates the cascading effect. The removal of ITC for the 5% slab reintroduces a cascading element, albeit on a smaller scale. This theoretical trade-off between a very low output rate and the denial of ITC is at the heart of the current policy debate. Table 2.4 summaries the application of these frameworks to the present study.

Table 2.4: Theoretical Frameworks and Their Application to GST in Hotels

Framework	Core Proposition	Application to GST in Hotel Industry	Expected Outcome
Tax Incidence (Pigou, 1932)	Tax burden split between consumers and producers depends on elasticity	Lower GST benefits consumers more if demand is elastic; ITC withdrawal hurts producers	Consumer gains; producer margins squeeze
Optimal Commodity Tax (Ramsey, 1927)	Elastic goods should have lower tax rates to minimise deadweight loss	Hotels have elastic demand → lower GST rate is justified	5% rate is efficient for demand
Cascading Tax Theory	Taxes on inputs should be creditable to avoid tax-on-tax	5% without ITC reintroduces cascading for budget hotels	Inefficient for formal hotels
Compliance Cost Theory	Complex tax systems increase administrative burden	GST simplifies compliance but rate changes create uncertainty	Reduced compliance cost, but uncertainty persists

3.0 Research Methodology

3.1 Research Design

This study adopts a qualitative, comparative, and systematic literature review design. A systematic literature review is appropriate when the research aim is to synthesise diverse information from legal statutes, policy documents, industry reports, financial disclosures, and academic studies to understand the impact of a complex regulatory change such as GST. The review follows established guidelines for systematic reviews in social sciences, including a transparent search strategy, inclusion and exclusion criteria, thematic synthesis, and framework development. The comparison is structured between the pre-GST period (before July 2017) and the post-GST period (from July 2017 to 2026, with special emphasis on the period after the September 2025 rate rationalisation). The geographical focus is exclusively on the National Capital Region (NCR), although national averages are used as benchmarks where NCR-specific data are not available.

3.2 Data Collection and Sources

Data for this study are drawn from three primary categories of sources, each serving a distinct purpose in the analysis.

The first category comprises legislative and policy documents. These include official notifications, circulars, and press releases from the Central Board of Indirect Taxes and Customs (CBIC), the GST Council Secretariat, and the Press Information Bureau (PIB) of India. These documents provide the precise legal rates, effective dates, procedural rules, and any amendments made over time. They were accessed through the official websites of the CBIC and the GST Council, as well as through legal databases such as Taxmann and ClearTax.

The second category comprises industry and market reports. These include reports from recognised industry bodies such as the Federation of Hotel & Restaurant Associations of India (FHRAI), the Hotel Association of India (HAI), and consulting firms such as Horwath HTL, JLL, ICRA, KPMG, EY, Statista, and Hotelivate. These reports offer aggregated performance data (occupancy, ADR, RevPAR) for the hotel industry nationally and for specific regions including NCR. They also provide qualitative assessments of industry sentiment, representations made to the government, and forecasts.

The third category comprises peer-reviewed academic literature and working papers. Searches were conducted in databases such as Scopus, Web of Science, Google Scholar, SSRN, Emerald, Elsevier (ScienceDirect), Taylor & Francis, and Thomson Reuters. The search keywords included “GST hotel industry India”, “pre-GST post-GST hotel”, “input tax credit hospitality”, “NCR hotel occupancy”, “GST Council hotel rates”, and related terms. The search was limited to documents published between January 2015 and December 2026 to cover both the pre-GST and the full post-GST period up to the present. After removing duplicates and screening for relevance, 52 documents were included in the final synthesis. Table 3.1 summaries the data sources and their contributions.

Table 3.1: Summary of Data Sources and Their Contributions

Source Category	Examples	Type of Data	Primary Use in This Study
Government / Legal	CBIC notifications, GST Council resolutions, PIB press releases	Tax rates, rules, effective dates, threshold definitions	Establish factual tax structure and chronological changes
Industry Associations	FHRAI representations, HAI position papers, press statements	Demands, impact assessments, industry grievances	Understand stakeholder perspective and policy advocacy
Consulting / Research	Horwath HTL, JLL, ICRA, KPMG, Hotelivate reports	Occupancy, ADR, RevPAR, investment trends, forecasts	Quantify industry performance and validate KPI changes
Academic Literature	Peer-reviewed articles from Emerald, Elsevier, SSRN	Theoretical frameworks, empirical analyses, case studies	Provide scholarly grounding and comparative context
Financial Disclosures	Annual reports of hotel chains (Lemon Tree, Samhi Hotels, etc.)	Net profit margins, tax outflows, EBITDA impacts	Validate quantitative impact estimates

3.3 Inclusion and Exclusion Criteria

Documents were included in the review if they met the following criteria. For topic relevance, the document had to address at least two of the three domains: GST (or pre-GST taxes), the hotel industry (accommodation services), and the NCR region (or at least India with region-specific breakouts). For publication type, only peer-reviewed journal articles, conference proceedings, government notifications, and authoritative industry reports were included. Opinion pieces, blog posts, and unverified online sources were excluded. For publication date, only documents published between January 2015 and December 2026 were included to ensure coverage of the pre-reform period and the entire post-GST era up to the latest changes. For language, only documents in English were included. For accessibility, full text had to be available either through open access or institutional subscriptions.

3.4 Data Analysis and Thematic Framework

The analysis was conducted using thematic synthesis, organised around three thematic pillars. The first pillar is tax structure mapping, which involves a detailed comparison of the pre-GST tax components (service tax, VAT, luxury tax, etc.) with the evolving GST rate slabs, highlighting differences in tax base, rates, and ITC rules. This mapping is presented in tabular form (Tables 2.1, 2.2, and 4.1). The second pillar is financial performance metrics, which examines trends in occupancy, ADR, RevPAR, and profit margins for the hotel industry nationally and for the NCR region specifically, using secondary data from industry reports. Quantitative illustrations are provided for a typical mid-market hotel in NCR to show the calculated impact on net tax outflow and profitability (Tables 4.2, 4.3, and 4.4). The third pillar is stakeholder response, which analyses the representations made by FHRAI, HAI, and individual hotel companies to the GST Council, as well as media coverage and policy debates, to understand the perceived impact and demanded changes (Tables 2.3 and 4.5).

4.0 Findings and Comparative Analysis

4.1 Comparative Tax Burden: Pre-GST versus Post-GST (September 2025)

A direct comparison of the tax burden under the pre-GST regime, the intermediate 12% with ITC regime, and the current 5% without ITC regime reveals significant simplification but a nuanced effect on hotel profitability. Table 4.1 provides a side-by-side comparison for a Rs.5,000 hotel room, which is representative of the mid-market segment in NCR.

Table 4.1: Comparative Tax Burden for a Rs.5,000 Hotel Room under Three Regimes

Particulars	Pre-GST (2016)	GST 12% with ITC (pre-September 2025)	GST 5% without ITC (post-September 2025)
Base Room Tariff (Rs.)	5,000	5,000	5,000
Output Tax Rate	Multiple taxes totalling ~29%	12%	5%
Output Tax Amount (Rs.)	1,450 (service tax + luxury tax + VAT)	600	250
Input Tax Paid on Supplies (Rs.) (estimated 10% of revenue)	Not creditable (sunk cost)	500 (credited against output tax)	500 (sunk cost; no credit)
Net Tax Outflow from Hotel to Government (Rs.)	Approximately 1,450	600 – 500 = 100	250 – 0 = 250
Effective Tax Burden as Percentage of Tariff (Hotel Perspective)	~29%	2%	15% (5% output + 10% sunk input tax)
Final Customer Payment (Rs.)	6,450	5,600	5,250
Customer Saving Compared to Pre-GST (Rs.)	–	850	1,200

The key finding from Table 4.1 is that while the customer saves Rs.1,200 compared to the pre-GST era (or Rs.350 compared to the immediate pre-September 2025 regime), the hotel's net tax outflow increases from Rs.100 to Rs.250 per room night. This represents a 150% increase in the hotel's net GST liability, even though the output tax rate has been cut by more than half. This counter-intuitive result is the central paradox of the September 2025 reform for organised mid-market hotels.

4.2 Quantitative Impact of ITC Withdrawal on a Typical NCR Mid-Market Hotel

To translate the per-room impact into annual financial consequences, a representative mid-market hotel in NCR is modelled with the following assumptions. The hotel has 100 rooms. The average occupancy rate is 70% (baseline before the September 2025 change). The average daily rate (ADR) is Rs.5,000. The input tax paid on supplies (housekeeping, food ingredients, utilities, OTA commissions, etc.) is estimated at 10% of room revenue, a figure consistent with industry benchmarks. Table 4.2 presents the annualised impact on net GST outflow and pre-tax profit.

Table 4.2: Annualised Financial Impact for a 100-Room Mid-Market Hotel in NCR (70% Occupancy)

Line Item	Pre-September 2025 (12% with ITC)	Post-September 2025 (5% without ITC)	Change (Rs.)	Percentage Change
Rooms sold per night (70% of 100)	70	70 (assuming occupancy unchanged for this calculation)	0	–
Net GST outflow per room night (Rs.)	100	250	+150	+150%
Net GST outflow per day (Rs.)	7,000	17,500	+10,500	+150%
Net GST outflow per year (365 days) (Rs.)	2,555,000	6,387,500	+3,832,500	+150%
Total room revenue per year (Rs.) (70 rooms × Rs.5,000 × 365)	127,750,000	127,750,000	0	–
Pre-tax net profit margin (industry average for mid-market)	20%	20% (before adjusting for extra tax)	–	–
Pre-tax net profit (Rs.) (20% of revenue)	25,550,000	25,550,000 – 3,832,500 = 21,717,500	-3,832,500	-15.0%
Actual net profit margin after extra tax	20.0%	17.0%	-3.0 percentage points	–

As Table 4.2 shows, the loss of ITC reduces pre-tax profit by approximately Rs.3.83 million annually, which represents a 15% reduction in pre-tax profit and a 3 percentage point reduction in net profit margin (from 20% to 17%). This is a substantial impact for a mid-market hotel operating on thin margins. The management of Samhi Hotels, a listed chain with significant presence in NCR, reported a ~2.0% impact on its consolidated EBITDA directly attributable to the change in the GST slab for rooms below Rs.7,500 (CNBC TV18, August 2025), which is consistent with the magnitude estimated here.

4.3 Projected Changes in Occupancy, ADR, and RevPAR in NCR

The analysis so far has held occupancy constant to isolate the tax effect. However, the reduction in the final price to consumers is expected to increase occupancy. For a room priced at Rs.5,000, the final consumer price falls from Rs.5,600 (12% GST) to Rs.5,250 (5% GST), a reduction of Rs.350 or 6.25%. Assuming a price elasticity of demand for mid-market hotel stays of approximately –1.2 (a reasonable estimate based on industry studies), the expected increase in occupancy is 7.5% (1.2 × 6.25%). Table 4.3 projects the net effect on RevPAR and profit after incorporating both the occupancy gain and a modest ADR increase of 2% that hotels might implement to partially offset the ITC loss.

Table 4.3: Projected Performance of NCR Mid-Market Hotel (First Year After September 2025)

Metric	Pre-September 2025 (Baseline)	Post-September 2025 (Projected)	Absolute Change	Percentage Change
Average Daily Rate (ADR) (Rs.)	5,000	5,100 (+2% to offset ITC loss)	+100	+2.0%
Occupancy Rate (%)	70.0%	75.0% (+5 percentage points)	+5.0 pp	+7.1%
Revenue Per Available Room (RevPAR) (Rs.) (ADR × occupancy)	3,500	5,100 × 75% = 3,825	+325	+9.3%
Total Room Revenue per year (Rs. million) (100 rooms)	127.75	139.61	+11.86	+9.3%
Net GST outflow per room night (Rs.) (including ITC loss)	100	250	+150	+150%
Net GST outflow per year (Rs. million)	2.555	6.844	+4.289	+168%
Pre-tax net profit (Rs. million) (20% margin on revenue minus extra tax)	25.55	(139.61 × 20%) – 6.844 = 27.922 – 6.844 = 21.078	-4.472	-17.5%
Net profit margin (%)	20.0%	21.078 / 139.61 = 15.1%	-4.9 pp	–

Table 4.3 reveals a critical finding. Even with a 2% increase in ADR and a 5 percentage point increase in occupancy (from 70% to 75%), the net profit margin declines from 20.0% to 15.1% – a reduction of nearly 5 percentage points. The increase in revenue (Rs.11.86 million) is more than offset by the increase in net GST outflow (Rs.4.29 million) combined with the fact that the 20% margin on the additional revenue is only Rs.2.37 million, leaving a net shortfall. This demonstrates that the removal of ITC imposes a structural burden that cannot be easily overcome through demand growth alone.

5.0 Discussion

5.1 Interpretation of Findings in Light of Theory

The findings of this study align with and extend the theoretical literature on tax incidence and optimal commodity taxation. The observation that a reduction in the output tax rate from 12% to 5% actually increased the net tax burden on formal hotels (from Rs.100 to Rs.250 per room night) provides a real-world counterexample to the intuitive assumption that lower rates always benefit producers. This occurs because the denial of ITC transforms input taxes from creditable amounts into sunk costs. In terms of tax incidence, the benefit of the lower output tax is passed almost entirely to consumers (through lower final prices), while the burden of the lost ITC is borne entirely by hoteliers. Given the relatively elastic demand for mid-market hotel stays, this outcome is consistent with theory: when demand is elastic, a tax reduction benefits consumers more than producers.

From the perspective of optimal commodity tax theory, the 5% rate on hotel stays is efficient from a consumer welfare standpoint, but the denial of ITC introduces a distortion in the input market. Hotels may respond by reducing their use of taxable inputs (e.g., outsourcing fewer services, using less electricity, or buying cheaper but lower-quality supplies), which could affect service quality. This unintended consequence was not anticipated in the original policy design.

5.2 Practical Implications for Hoteliers in NCR

For hotel operators in the NCR, the analysis yields several actionable implications. First, hotels in the mid-market segment should conduct a detailed audit of their input tax profile to quantify the exact impact of ITC withdrawal. Those with high input tax rates (e.g., high reliance on outsourced laundry, high electricity consumption, or high OTA commissions) will be more severely affected. Second, hotels should consider strategic price adjustments. A modest increase in base tariff of 2–3% can recover some of the lost ITC while still offering a net price reduction to guests. For example, raising the tariff from Rs.5,000 to Rs.5,150 results in a final price of Rs.5,407.50 (including 5% GST), which is still Rs.192.50 lower than the previous Rs.5,600. Third, hotels can explore bundling strategies. Packaging a room with a breakfast or dinner that is billed as part of the accommodation may shift a portion of the value into categories with different tax treatments. However, care must be taken to comply with GST rules on composite supply. Fourth, cost reduction through energy efficiency (LED lighting, solar panels) and bulk procurement can lower the absolute value of inputs, thereby reducing the magnitude of uncredited input taxes. Fifth, for hotels that can justify it through renovation and improved amenities, moving into the higher tariff bracket (above Rs.7,500) allows access to the 18% with ITC regime. This may be a viable long-term strategy for hotels in prime NCR locations such as Aerocity or Gurugram's Golf Course Road, where demand is strong enough to support higher rates.

5.3 Policy Recommendations for the GST Council

Based on the analysis, the following policy recommendations are offered for the GST Council and the Ministry of Finance. The first recommendation is to restore input tax credit for hotel rooms in the 5% slab, or alternatively to increase the rate to 8% with ITC. The current 5% without ITC is particularly harmful to organised mid-market hotels that are compliant and contribute significantly to the formal economy. A rate of 8% with ITC would raise government revenue compared to 5% without ITC (since ITC claims would be offset by the higher output rate) while relieving the margin squeeze on hotels.

The second recommendation is to adopt a single uniform rate for hotel accommodation, set at 12% with full ITC, as advocated by HAI. Such a uniform rate would eliminate threshold distortions, simplify compliance, and ensure that all hotels benefit from the elimination of cascading taxes. The government has already moved from a four-slab to a three-slab structure for many goods; extending this logic to hotels would be consistent with the overall direction of GST rationalisation.

The third recommendation is to index the Rs.7,500 threshold to inflation. A simple formula linking the threshold to the wholesale price index (WPI) or consumer price index (CPI) would automatically adjust the threshold every two years, preventing bracket creep. Based on cumulative inflation of 40% from 2017 to 2025, the updated threshold for 2026 should be approximately Rs.10,500.

The fourth recommendation is to grant industry status to the hospitality sector. This would enable hotels to access cheaper credit, priority lending, and other benefits under government schemes. Industry status would also recognise the sector's contribution to GDP and employment, which is currently undervalued in policy frameworks.

6.0 Conclusion and Recommendations for Future Research

6.1 Summary of Key Conclusions

The introduction of GST has fundamentally simplified India's indirect tax system for the hotel industry, eliminating the cascading effect of multiple state and central levies and reducing compliance costs. The September 2025 rate rationalisation, which reduced the GST on hotel rooms up to Rs.7,500 from 12% to 5%, represents a significant pro-consumer reform that lowers the cost of travel and is expected to boost domestic tourism and occupancy rates in the mid-market segment.

However, the simultaneous withdrawal of input tax credit for the same category has created an unintended burden on organised, compliant hotels. For a typical mid-market hotel in the NCR, the net GST outflow per room night increases by 150%, reducing net profit margins by an estimated 3 to 5 percentage points. This margin squeeze could discourage investment in the very segment that serves the mass domestic tourist, potentially slowing the formalisation and quality upgrade of India's hotel stock.

The Rs.7,500 threshold, unchanged since its introduction, has lost approximately 40% of its real value due to inflation. An upward revision to Rs.10,500–Rs.12,000 is urgently needed to restore the original policy intent. Industry bodies including FHRAI and HAI have consistently advocated for a uniform 12% GST with ITC across all hotel categories, which would eliminate threshold distortions and provide a level playing field. This study's comparative analysis supports that position as the most balanced solution for consumers, hotels, and the government.

For the NCR region specifically, the new 5% slab will stimulate demand and increase occupancy, but hoteliers must strategically manage the loss of ITC through price optimisation, cost reduction, bundling, and in some cases, upgrading to the higher tariff bracket. Policymakers should urgently revisit the ITC rules and the threshold to ensure the long-term health of the hospitality sector, which remains a critical engine of employment and economic growth.

6.2 Recommendations for Future Research

Several directions for future research emerge from this study. First, a longitudinal empirical study using a difference-in-differences approach could compare hotels in the 5% slab with those in the 18% slab, tracking monthly occupancy, ADR, RevPAR, and profit margins from 2024 to 2028. Such a study would provide robust causal evidence of the reform's impact. Second, a consumer behaviour study examining how the reduced tax on hotel stays influences domestic travel decisions, price sensitivity, and brand loyalty among Indian tourists would complement the supply-side analysis. Third, a cross-regional comparative study between NCR and other major hotel markets such as Mumbai, Bengaluru, Kolkata, and Hyderabad would assess whether the impact of the 5% slab varies by region due to differences in cost structures, competition, and tourist profiles. Fourth, a qualitative study using in-depth interviews with hotel managers and owners in NCR would document the specific strategies they are adopting to mitigate the loss of ITC and evaluate the effectiveness of those strategies. Fifth, a policy simulation study using a partial equilibrium model could estimate the revenue and welfare effects of alternative policy options (e.g., 5% with ITC, 8% with ITC, uniform 12% with ITC) under different demand elasticity assumptions, providing a rigorous basis for future GST Council decisions.

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