

The Impact of GST in Tamilnadu: A Study on Tamilnadu Tax on Luxuries Act - 1981

Hariharan K

LLM, The Tamil Nadu Ambedkar Law University, Chennai, Tamil Nadu, India
harimohana7[at]gmail.com

Abstract: *GST (Goods and service tax) is a non-discriminatory tax, and its effects will be seen across verticals. In this article, we will look at the effects of the GST on the Luxuries Act. Before the implementation of GST hotel industry paid a lot of indirect taxes such as VAT, Luxury Tax, Service Tax, service charges, etc. After GST came into effect all these taxes ceased to exist. Also to increase the tax rate of the Tobacco products like Excise duty, NCCD, and compensation cess its route to reduce the utilization of tobacco products.*

Keywords: Goods and Service Tax (SGT), Hotel Industry, Tobacco, Indirect Taxes, GST Impacts

1. Introduction

GST is one indirect tax for the whole nation, which will make India one unified common market. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax-only addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

The Goods and Services Tax (GST) is a comprehensive, multi-stage, destination-based tax that has replaced multiple taxes in India. Before the implementation of GST, the hotel industry was burdened with various indirect taxes, including VAT, Luxury Tax, Service Tax, and service charge. With the advent of GST, all these taxes were subsumed, aiming for a unified tax structure. The Tamil Nadu Tax on Luxuries Act, of 1981 levied a special tax on luxury services, such as high-end hotel accommodations. However, post-GST implementation, the impact of this act has been significant, leading to both.

This paper aims to provide an overview of the implications of GST on the Tamil Nadu Tax on Luxuries Act, 1981, focusing on the hotel industry. We will explore how the abolition of multiple indirect taxes and the introduction of GST have streamlined tax administration, reduced compliance costs, and impacted pricing strategies¹.

2. Luxuries Under the Tamil Nadu Tax on Luxuries Act-1981

The Tamil Nadu Tax on Luxuries Act, Definition clause Section 2(ff) explains the meaning of **Luxury** it means luxury provided in a **hotel** or any **tobacco product** supplied

by a Tobaccoist [or the scheduled commodity which is] for enjoyment over and above the necessities of life.

Section 2(f) **Hotel** means a building or part of a building where residential accommodation with or without board is by way of business provided for a monetary consideration and includes a lodging house.

Section 2(g) **Luxury provided in a hotel** means accommodation for residents provided in a hotel, the rate of charges for which (including charges for air-conditioning, television, radio, music, extra beds, and the like but excluding charges for food, drink and telephone calls) is [two hundred rupees or more].

Section 2(ii) **Tobaccoist** means a person who supplies by way of sale, luxury like tobacco products manufactured by him or purchased or procured or received by him from other states or from other persons in the State and includes any person who for the purpose of business gets the manufacturing done from any person, whether or not on job work basis².

Section 2(iii) means **tobacco product** means any goods or preparation made of tobacco or tobacco substitutes including cigarettes, cigarillos, cigars, Charoots, mixtures of tobacco for pipes, cut tobacco, hookah tobacco, snuff of tobacco, and chewing tobacco, but excluding beedis.

Levy and collection of tax for luxury items under the Tamil Nadu Tax on Luxuries Act, - 1981

In the light of **Luxuries Act Section 4(1)**³ of this act explain the **Levy and Collection of Luxury tax**, Subject to the provisions of this Act, there shall be levied and collected a tax per month. Luxury is provided in a hotel in respect of every room under occupation by any person (to be known as 'luxury tax') at the following rates⁴.

¹https://www.shanlaxjournals.in/publication/2017/9/Economics/Goods_and_Services_Tax_%28GST%29_and_Its_Impacts_on_Hotel_Industry_in_South_Tamilnadu_K_Rahmath_Nisha_K_Mohamed_Jasim_A_Keerthika.pdf

²<https://ctd.tn.gov.in/documents/10184/10928/TAMIL+NADU+TA X+ON+LUXURIES+ACT%2C+1981/4d6e34b2-d3c5-4244-8445-31bcd2fcae26?version=1.2>

³Substituted by the Tamil Nadu Act 1 of 2003 with effect from 31-12-2003. Sub-section (1) of Section 4 which existed up to 30-12-2003.

⁴<https://ctd.tn.gov.in/documents/10184/10928/TAMIL+NADU+TA X+ON+LUXURIES+ACT%2C+1981/4d6e34b2-d3c5-4244-8445-31bcd2fcae26?version=1.2>

		Rate of Tax
(a)	Where the rate of charges for accommodation for residence is not less than rupees two hundred but more than rupees five hundred per room per day.	5% of such rate
(b)	Where such a rate is not less than five hundred but less than rupees one thousand per room per day.	10% of such rate
(c)	Where such rate is rupees one thousand or more per room per day.	12% of such rate

Example No 1

- A hotel charges 700 for accommodation per room per day.
- Apply the second column “where such rate in is not less than 500rs but less than 1000rs” so 10% of such rate taxable.

$$700/100*10 = 70$$

70Rs tax amount per room per day.

- Convery to per month: $70*30=2100$
- 2100Rs will Tax amount for per room per month.

According to **Section 4-B Levy and Collection of Luxury tax on Tobacconist**, Sub Section (1), subject to the provisions of this Act there shall be levied and collected tax on the turnover of a Tobacconist relating to the supply of luxury tobacco products, at the rate of five percent of his turnover at the first point of supply of such luxury in the state.

Provided that a Tobacconist whose turnover in a year is less than three lakh rupees shall be exempted from tax⁵.

Example No 2

- A tobacconist's yearly turnover is Rs. 2.5 lakhs, is comes exempted from tax under the Tamil Nadu Luxuries Act 1981.
- On another hand, Person A is a tobacconist his monthly turnover is Rs. 5 lakhs are taxable amount under Section 4-B of the Luxuries Act.

$$5\text{lakhs}/100*5 = \text{Rs. } 25,000$$

- Rs. 25,000 shall be the tax amount for the year for tobacconist person A.

Provided further that no tax under this sub-section shall be payable on that part of the turnover which relates to:

- The tobacco products which are supplied by way of the consignment to another state, whether the consignment is to himself or any other person, and in support of such claim, the proprietor produces on demand a certificate as am be prescribed.
- The tobacco products which are supplied by way of sale in the course of inter-state trade or commerce or by way of sale in the course of export outside the territory of India and in support thereof, the proprietor produces such proof of such sale or export as may pr prescribed.

3.In the Light of GST Impacts on Luxuries Act

Under the previous indirect tax regime, the Indian hospitality industry was liable to pay multiple indirect taxes such as VAT, Luxury tax, and service tax. However, with the commencement of the GST regime, the Indian hospitality Industry is expected to garner the benefits of standardized and uniform tax rates throughout the country. The industry can also get the benefit of better utilization of Input Tam credit. It is expected that GST will reduce costs for customers, will harmonize the taxes as well, and will help in reducing business const.

Indian economy is going through a phase of rapid urbanization, increasing awareness of Western lifestyle, and empowerment of women. These resulted in higher disposable income which has then contributed to the enhancement of the growth of the hotel and restaurant industry. With the implementation of GST, it is expected that the implementation of GST, it is expected that the industry is going to boom soon. India’s Goods and Services (GST) has had a huge impact on the hospitality industry, nowadays number of services have been added to the list of services provided by the hotel industry previously⁶.

Implementation of GST has helped the sector by reducing costs for customers, harmonizing taxes, and reducing business transaction costs, but has its own set of challenges. In this article, we will look at the effects of the GAT on the hotel.

Services Provided by Hotels in India:

- Accommodation Services
- Serving Food in Hotel Restaurants and hotel room
- Cab services for tourist
- Foreign currency exchange service
- Food catering services
- Laundry services
- Business support services
- Personal Grooming and wellness services
- Food and beverage services at Indian Railway
- Food services through an e-commerce operator⁷.

⁵<https://ctd.tn.gov.in/documents/10184/10928/TAMIL+NADU+TA+X+ON+LUXURIES+ACT%2C+1981/4d6e34b2-d3c5-4244-8445-31bcd2fcae26?version=1.2>

⁶<https://taxguru.in/goods-and-service-tax/gst-impact-hospitality-industry.html>

⁷<https://cleartax.in/s/impact-of-gst-hospitality-industry>

GST Rates of Hotels based on per day:

Changes as per Notification No.3/2022-Central Tax (Rate), dated 13.07.2022 effective from 18.07.2022

S.I. No.	Room Rent	GST rate
1.	Rs.1 – Rs. 7,500/- per day	12% with full ITC
2.	Rs.7,501 and above per day	18% with full ITC

Example No 3

Particulars	Amount	Amount
Room rent	2,700	2700
Luxury charge on stay (12%)	324	
Service Tax at 9%	243	
GST tax at 12%		324
Total Bill	3267	3024

GST Rate on Tobacco products:

The tobacco industry is booming, despite the ill effects that smoking and tobacco have on the human body. Many reports have been released by WHO claiming that India is harbouring the world's highest incidence of mouth cancer. We are the second largest consumer of tobacco, having an astonishing 275 million users! But how does GST affect this multi-million-dollar industry? This article, let us understand all about GST on cigarettes, the GST rate on tobacco products, and other duties and cess imposed on tobacco products.

Impact of GST on the Tobacco Industry:

The tobacco industry attracts Central Excise duty, National Calamity Contingent Duty (NCCD), GST, and compensation cess as it is a sin good. In fact, a lot of revenue is generated from the sale of tobacco for the Indian government. However, the tax burden levied on the Indian tobacco industry is not enough, as per the recommendation of the WHO for a minimum tax burden of 75% on all tobacco-related products.

Hence, there has been an increasing demand for a higher tax burden on tobacco manufacturers. The Indian government has constantly been increasing the rate of taxes imposed on cigarettes and tobacco products. In line with this, in Budget 2023, it was proposed that the NCCD rate be revised upwards by 16%.

The Indian government has imposed the highest GST rate on cigarettes and tobacco products at 28%. This includes products such as pan masala, cigars, cigarillos, hookah, and other similar products.

In addition to this, there is a compensation cess levied under the GST law as well as duties imposed under the Central Excise law⁸.

As per section 4A of the Central Excise Act, 1944, retail sale price-based assessment has been prescribed for tobacco and

tobacco products (like chewing tobacco, preparation containing chowing tobacco, Jarda scented tobacco, pan masala containing tobacco) and an abatement of 55% on the retail sale price has been prescribed for products. Accordingly, assuming the retail sale price to be Rs. 100, **the basic excise duty and NCCD is computable on an assessable value of Rs 45. The cumulative basic excise duty (0.5%) and NCCD combined are 25.5%**, at present, on such products, the amount of excise duty and NCCD. It is not the prescribed sale price by the manufacturer. He is free to maintain his sale price, as appropriate, taking into account the relevant factors of cost and profit. Also, the abated value of Rs 45 (used only as a measure for computation of basic excise duty and NCCD) is not relevant for the computation of GST and Compensation Cess. Under the respective Acts, GST and Compensation Cess is payable on transaction value, that is the price paid or payable for the supply of goods including duties like basic excise duty and NCCD. Therefore, the value plus basic excise duty, NCCD, and any other amount as prescribed in section 15 of GST Act, 2017[i.e., in the above example, Value for computation of GST and Compensation Cess "V" = Transaction value as per the GST Act, 2017 + 11.457 (basic excise duty + NCCD)]. **Hence, consequent to an increase in the NCCD rate (like in the year 2020), a manufacturer of tobacco products had the option to raise his retail sale price to retain the transaction value at a level that he wished to recover from the consumer.** Accordingly, in a regular transaction, at arm's length, the sale price of tobacco products would be value "V" plus GST and compensation cess. It is normally anticipated that the tax and duty increase, including excise duty and NCCD, would lead to an increase in sale price⁹.

(In rupees per one thousand sticks)

Table one¹⁰:

Particulars	Cigarettes up to 65mm in length	Cigarettes between 65mm and 70mm	Filter cigarettes up to 65mm in length	Filter cigarettes between 65mm and 70mm
Excise duty	5	5	5	5
NCCD	230	290	510	510
Compensation cess	5%+Rs.2076	5%+Rs.3668	5%+Rs.2076	5%+Rs.2747

Table one continued:

Filter cigarettes between 70mm and 75mm	Other cigarettes containing tobacco	Cigarettes of tobacco substitutes
5	10	5
630	850	690
5%+ Rs. 3668	36%+ Rs. 4170	Rs. 4006

⁸<https://cleartax.in/s/impact-of-gst-rate-on-the-tobacco-industry>

⁹Valuation of tobacco & tobacco products for payment of BED & NCCD

¹⁰<https://cleartax.in/s/impact-of-gst-rate-on-the-tobacco-industry>

4. Conclusion

The implementation of GST (Goods and Services Tax) has significantly streamlined the taxation system in India by replacing various indirect taxes such as VAT, Luxury Tax, Services Tax, and service charges with a unified tax structure. This simplification has had widespread effects across various sectors, including the hotel industry.

Before GST, the hotel industry grappled with multiple indirect taxes, leading to a complicated tax environment. With GST, this complexity has been reduced, making compliance easier and fostering a more transparent tax system.

On the other hand, the taxation of tobacco products has seen an increase in rates with the inclusion of Excise duty, NCCD (National Calamity Contingent Duty), and compensation cess. These higher taxes aim to deter the consumption of tobacco products by making them more expensive, thus promoting public health by reducing the usage of harmful substances.

In summary, GST has brought about a more straightforward and efficient tax system, benefiting industries like hospitality by eliminating redundant taxes. Meanwhile, the escalated taxes on tobacco are a strategic move to curb its consumption and enhance public health.