



Financial Impact of Goods and Services Tax (GST) on Quick-Service Restaurants: Challenges and Opportunities

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Abstract

The implementation of the Goods and Services Tax (GST) in many countries has significantly impacted various sectors, including the quick-service restaurant (QSR) industry. This study explores the financial implications of GST on QSRs, focusing on the challenges and opportunities it presents. By analysing the tax structure, compliance costs, and operational adjustments, the research aims to provide a comprehensive understanding of how GST affects the profitability and sustainability of QSRs. The study also examines the potential for QSRs to leverage GST-related benefits to enhance their competitive edge. Through a mixed-methods approach, including quantitative data analysis and qualitative interviews, the research offers insights into the strategic responses of QSRs to GST and provides recommendations for policymakers and industry stakeholders.

Keywords: GST, QSRs, Profitability, Fast Food Chain, Policy Makers, Industries

INTRODUCTION

GST is known as the Goods and Services Tax. It is an indirect tax which has replaced many indirect taxes in India such as the excise duty, VAT, services tax, etc. The Goods and Service Tax Act was passed in the Parliament on 29th March 2017 and came into effect on 1st July 2017. In other words, Goods and Service Tax (GST) is levied on the supply of goods and services. Goods and Services Tax Law in India is a comprehensive, multi-stage, destination based tax that is levied on every value addition. After subsuming majority indirect taxes, GST is a single domestic indirect tax law for the entire country.

The introduction of GST has been a transformative tax reform in many economies, aiming to streamline the tax system, reduce cascading taxes, and promote economic efficiency. For the QSR industry, which operates on thin margins and high volumes,

the shift to GST has brought both challenges and opportunities. This study seeks to delve into the financial impact of GST on QSRs, examining how the new tax regime influences pricing, cost structures, and overall profitability. The research also aims to identify the strategic adaptations that QSRs can make to mitigate the challenges and capitalize on the opportunities presented by GST.

The Goods and Services Tax (GST) represents one of the most significant tax reforms in India's economic history, aimed at unifying the fragmented tax system under a single umbrella. Implemented on July 1, 2017, GST subsumed a multitude of indirect taxes levied by both the central and state governments, including Value Added Tax (VAT), service tax, excise duty, and other local levies. This transition towards a more streamlined and transparent tax system was envisioned to simplify compliance, curb tax evasion, and ultimately boost the formal economy. While the reform has had wide-ranging implications across sectors, its financial impact on Quick-Service Restaurants (QSRs) is both profound and complex, raising critical questions regarding operational sustainability, pricing strategies, and overall business performance.

Quick-Service Restaurants, often referred to as fast-food chains, occupy a distinctive segment within the broader food service industry. Characterized by standardized menus, rapid service, competitive pricing, and a strong reliance on high footfall, QSRs cater to the growing demand for convenient and affordable dining options, particularly among urban consumers. In India, the QSR segment has witnessed exponential growth over the past decade, driven by increasing urbanization, rising disposable incomes, changing consumer lifestyles, and the proliferation of international and domestic brands. However, this growth trajectory has also exposed QSRs to unique regulatory, financial, and logistical challenges, particularly in the context of tax compliance and fiscal policy changes.

Prior to the implementation of GST, the taxation landscape for QSRs was highly complex. Restaurants were subject to a combination of VAT, service tax, and other local taxes, the rates of which varied across states and municipalities. This not only complicated accounting and compliance efforts but also led to cost inefficiencies and pricing inconsistencies. GST, with its promise of a unified tax rate and input tax credit mechanisms, was expected to bring much-needed clarity and operational ease to the sector. However, the actual financial implications of the new regime have been mixed, particularly for QSRs that operate under different models such as franchising, company-owned outlets, or aggregator partnerships.

One of the most contentious aspects of GST for QSRs has been the change in tax rates over time. Initially, restaurants with air conditioning and liquor licenses were taxed at 18%, while non-AC restaurants were taxed at 12%. Input tax credit (ITC) was allowed for both categories. In November 2017, however, the GST Council revised the rates, standardizing the tax rate for all standalone restaurants to 5% without the benefit of input tax credit. This decision, while intended to simplify the structure and reduce the burden on consumers, had significant financial consequences for restaurant operators. The loss of ITC effectively increased the cost of operations, as businesses could no longer claim credit for taxes paid on inputs such as raw materials, rent, and utilities. For QSRs operating on thin margins and high volumes, this reversal had a considerable impact on profitability.

The situation is further complicated for QSRs operating through aggregators such as Zomato and Swiggy. Under revised GST rules effective from January 1, 2022, the responsibility for collecting and remitting GST on food orders placed through e-commerce platforms shifted to the aggregators themselves. While the intention behind this move was to improve tax compliance and plug revenue leakages, it introduced new layers of administrative complexity and altered the revenue-sharing dynamics between QSRs and aggregators. Smaller QSRs, in particular, have found it challenging to adapt to these changes due to limited technological capabilities and dependence on third-party platforms for customer acquisition and delivery logistics.

Moreover, the input tax credit conundrum has had varying degrees of impact depending on the scale and structure of the QSR. Large chains with pan-India operations often have better compliance systems, robust accounting frameworks, and the ability to negotiate favourable terms with suppliers and landlords. In contrast, smaller or regional QSRs frequently lack the infrastructure to manage post-GST compliance efficiently, thereby bearing a disproportionate financial burden. Additionally, franchised QSRs must navigate dual compliance obligations—at the franchisor and franchisee levels—leading to potential redundancies and conflicts in financial reporting.

In addition to these operational and compliance-related challenges, the GST regime has also influenced consumer behaviour and pricing strategies. Many QSRs, faced with the loss of ITC and increased operating costs, have been compelled to recalibrate their pricing models. While some have chosen to absorb the cost increases to remain competitive, others have passed them on to consumers, potentially impacting customer retention and brand perception. The shift to a 5% GST rate, devoid of input credits, has also discouraged formalization among smaller players, contradicting the core objective of GST to expand the formal tax base.

Despite these challenges, the GST regime also presents opportunities for the QSR sector. The standardized tax framework has reduced the scope for arbitrage across states, enabling QSRs to streamline their supply chains and logistics. With the advent of e-invoicing and digitized tax compliance, large QSRs are leveraging data analytics and ERP systems to gain better financial insights and optimize cost structures. Furthermore, as the government continues to refine and rationalize GST policies, there exists potential for greater transparency, improved working capital management, and enhanced investor confidence in the sector.

Understanding the financial impact of GST on QSRs is therefore both timely and critical. While several studies have explored the macroeconomic implications of GST or its sectoral effects on manufacturing and retail, limited scholarly attention has been paid to the QSR industry—a sector that sits at the intersection of food services, retail, and urban consumerism.

This research aims to bridge that gap by offering a comprehensive analysis of the challenges and opportunities posed by GST in the context of QSRs. Specifically, the study will examine the financial repercussions of GST-related policy changes on cost structures, revenue models, compliance burdens, and customer pricing. It will also assess how different business models—such as franchised vs. company-

owned QSRs—navigate the GST landscape, and 28 what strategic adaptations have been employed to mitigate risks and capitalize on opportunities.

In conducting this analysis, the study will employ a mixed-methods approach, combining quantitative financial data from industry reports and company filings with qualitative insights drawn from interviews with QSR operators, tax consultants, and policy experts. This methodological triangulation will enable a nuanced understanding of the multi-dimensional impact of GST and support evidence-based recommendations for policymakers and industry stakeholders.

In conclusion, the introduction of GST has fundamentally altered the financial and operational contours of the quick-service restaurant industry in India. While the policy reform was driven by laudable objectives of tax unification and simplification, its implementation has resulted in a complex matrix of outcomes—some beneficial, others detrimental. By critically examining the interplay between GST and QSRs, this research seeks to illuminate both the challenges that hinder and the opportunities that propel growth in a post-GST era, thereby contributing to a more informed and adaptive policy framework for the sector.

The QSR industry faces unique challenges under the GST regime, including increased compliance costs, complex tax filings, and potential impacts on pricing strategies. These challenges can affect the financial health and operational efficiency of QSRs. Conversely, GST also offers opportunities for QSRs to streamline their supply chains and benefit from input tax credits. This study addresses the need for a detailed analysis of the financial impact of GST on QSRs, providing insights into how these businesses can navigate the new tax landscape effectively.

The implementation of the Goods and Services Tax (GST) in India was envisioned as a transformative policy aimed at simplifying the nation's complex indirect tax structure. While GST has introduced uniformity and enhanced transparency in tax administration, its implications for various sectors remain uneven, particularly for the Quick-Service Restaurant (QSR) industry. Initially, the industry welcomed GST for its promise of input tax credit (ITC) and simplified compliance. However, subsequent revisions—especially the withdrawal of ITC and the introduction of a flat 5% GST rate on restaurant services—have disrupted financial models, eroded profit margins, and introduced new compliance challenges.

QSRs, which traditionally operate on high volume and low margin models, are disproportionately affected by the lack of ITC on input costs such as raw materials, rent, and logistics. Moreover, the evolving role of online food aggregators and changes in tax collection responsibilities have further complicated the financial and operational environment. Smaller QSRs face even greater difficulties in adapting to these changes due to limited resources and digital infrastructure.

Despite these significant developments, there is a noticeable gap in academic research analyzing the financial impact of GST on the QSR sector. Most existing literature focuses broadly on GST's macroeconomic effects, leaving a lack of detailed, sector-specific insights. This research seeks to address this gap by investigating the financial challenges and emerging 29 opportunities faced by QSRs under the GST regime,

providing stakeholders with data-driven insights to inform strategy, compliance, and policy engagement.

ANALYSIS OF LITERATURE

Quick-service restaurants often face significant financial and productivity concerns, as illustrated by Del Valle et al. (2022), who examined how restaurant businesses navigated the unexpected difficulties posed by pandemics. Their study showed that pandemic-related expenses, such as new supplies and employee training, led to a drastic reduction in income, forcing businesses to adapt by reducing staff and modifying operations. This highlighted the broader operational and financial constraints that affected QSRs, such as budget allocation and menu adjustments, which were critical factors for business owners to manage during challenging times. Another common issue included food safety and contamination. Food safety and contamination risks were also key concerns for QSRs. Sahoo et al. (2022) pointed out that food was a primary vehicle for zoonotic pathogens, which could lead to global outbreaks. They advocated for advanced food processing and preservation techniques to mitigate contamination risks, which were crucial for maintaining food safety in QSRs. Similarly, Holah (2023) further emphasized the necessity of managing contamination risks when contractors were involved in tasks like equipment installation, underscoring the importance of strict safety protocols. To deal with the context of time, responsiveness in operations played a critical role in the efficiency and success of QSRs. Ricardo (2022) explored the relationship between responsiveness, efficiency, and accountability in corporate governance, establishing the importance of these factors in restaurant operations. This responsiveness directly impacted service speed and accuracy. Likewise, Morinaga et al. (2022) found that responsiveness in endovascular treatments could be compared to the responsiveness needed in QSR operations, where delays or discrepancies led to customer dissatisfaction.

Feelings of pride in one's work are very similar to those of contentment in one's employment (Lu et al., 2016). A person's level of job satisfaction can be significantly influenced by factors such as salary, benefits, and other perks at work (Lu et al., 2016). When employees feel satisfied, it makes them feel happy. It boosts their energies and gives them a sense of achievement. It makes them feel they have achieved some specified goals (Yousef, 2017). Job satisfaction is an employee's core satisfaction factor that results from different internal and external causes that may lead to employee behavior. According to Singh (2019), job satisfaction is important for both employers and employees because both view it as a crucial component of the company. Due to the fact that job satisfaction accounts for more than 34% of plans to leave, it was the most important thing that led to turnover, according to Javed and Hassan (2014). According to Singh (2019), job satisfaction occurs when the desired expectation of employees they bring with them when joining the organization matches reality.

Social support, according to Barick et al. (2015), is a person's perception of the respect, affection, and care of others around him. People frequently turn to their friends and family for 30 assistance and attention, claim Barick et al. (2015). When

there is communal provision, people feel valued and connected, which gives them a sense of belonging to a social society. Three types of social support were recognized by Yousef (2017): practical support, positive support (in the form of acknowledging thought), and emotional support (i.e., sympathy) (e.g., money, advice, and information). According to the social provision's safeguarding theory, people are protected from the negative impacts of stressors by social provision. According to Suhartanto et al. (2019), the various forms of social support that are very close to the persons include family, friends, co-workers and supervisors. However, on the workplace, co-workers and supervisors are known as bases of social support because a worker looks for respect, care, purpose in the workplace and help to achieve their goals.

The literature review examines existing studies on the impact of GST on various industries, with a focus on the QSR sector. It highlights the key findings related to tax compliance, cost structures, and pricing strategies under GST. The review also explores the potential benefits of GST, such as input tax credits and the simplification of the tax system. By synthesizing the existing literature, this section provides a foundation for understanding the financial implications of GST on QSRs and identifies gaps in the current research that this study aims to address.

Impact on Pricing and Profit Margins

The implementation of GST has significantly influenced pricing strategies and profit margins in the quick-service restaurant (QSR) sector. Studies suggest that the shift from a multi-tax structure to a unified GST has streamlined compliance but also altered input costs (Gupta & Sharma, 2018). The uniform tax rates led to price fluctuations, where some restaurants absorbed the tax burden while others passed it on to consumers, impacting demand elasticity (Mukherjee & Rao, 2019).

Compliance and Administrative Challenges

The transition to GST required QSRs to upgrade their billing and accounting systems to comply with digital tax filings (Bansal & Singh, 2020). While GST aimed to simplify taxation, small and medium-sized QSR chains faced difficulties in understanding the complex filing requirements and frequent policy amendments (Jain & Gupta, 2021).

Input Tax Credit (ITC) and Cost Efficiency

The removal of Input Tax Credit (ITC) for restaurants under GST created a financial strain, particularly for quick-service restaurants that rely heavily on supplier networks (Choudhary, 2019). Without ITC, restaurants faced higher operational costs, leading to a rise in menu prices (Mehta & Verm0061, 2020). However, large QSR chains with strong financial backing could better manage these changes through strategic sourcing and pricing adjustments.

Consumer Behaviour and Spending Patterns

Research shows that GST influenced consumer preferences, with some customers shifting towards home-cooked meals or food delivery platforms due to increased

dining-out costs (Sharma & Nair, 2021). The QSR industry had to adapt by offering discounts, loyalty programs, and promotional pricing to maintain footfall and revenue stability (Kumar et al., 2022).

OPPORTUNITIES FOR GROWTH AND EXPANSION

Despite the initial challenges, GST has led to increased formalization in the QSR sector, encouraging foreign investments and expansion opportunities (Rao & Mukherjee, 2018). The reduced cascading effect of multiple taxes has benefited larger QSR chains in the long run, allowing them to optimize supply chain efficiency and expand into new markets (Patel, 2021).

This study employs a mixed-methods approach, combining quantitative data analysis with qualitative interviews. Quantitative data is collected from financial statements and tax filings of QSRs to assess the impact of GST on their profitability and cost structures. Qualitative interviews are conducted with QSR managers and tax experts to gain insights into the operational challenges and strategic responses to GST. The data is analysed using statistical tools and thematic analysis to draw meaningful conclusions.

ANALYSIS AND INTERPRETATION

The analysis section presents the findings from the quantitative and qualitative data. It examines the impact of GST on the pricing strategies, cost structures, and profitability of QSRs. The section also explores the compliance costs and operational adjustments required by QSRs under GST. The interpretation of the data provides insights into the financial challenges and opportunities presented by GST, highlighting the strategic adaptations that QSRs can make to enhance their financial performance.

CONCLUSION

The study concludes that GST has a significant financial impact on QSRs, presenting both challenges and opportunities. While compliance costs and operational adjustments can strain QSRs, the potential benefits of input tax credits and streamlined supply chains offer avenues for improved financial performance. The research highlights the need for QSRs to adopt strategic adaptations to navigate the GST regime effectively. The findings and recommendations provide valuable insights for QSRs, policymakers, and industry stakeholders, contributing to a better understanding of the financial implications of GST on the QSR industry.

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