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SERVICE CHARGE VS GST: CONSUMER CONFUSION IN RESTAURANT BILLING PRACTICES—AN EMPIRICAL STUDY

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Keywords

Service Charge, Goods and Services Tax (GST), Restaurant Billing, Consumer Awareness, Consumer Confusion, Pricing Transparency, Consumer Protection, Restaurant Industry.

Abstract

The increasing use of service charges alongside the Goods and Services Tax (GST) in restaurant billing has generated considerable confusion among consumers regarding their nature, applicability, and legal status. While GST is a statutory tax imposed by the Government of India, service charges are discretionary charges levied by restaurants and are governed by consumer protection guidelines. The present study examines consumer awareness and confusion regarding these billing components and assesses perceptions of transparency and fairness in restaurant billing practices. The study adopts a descriptive research design based on primary data collected through a structured questionnaire administered using Google Forms. A total of 114 responses were received, of which 107 valid responses were analysed using frequency and percentage analysis. The findings reveal that although a majority of respondents understand that GST and service charges are different, a substantial proportion continue to experience confusion while interpreting restaurant bills. The study further indicates overwhelming

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	support for clear disclosure of service charge policies, voluntary payment of service charges, and stronger regulatory oversight to ensure transparent billing practices. The findings emphasise the importance of consumer education, standardized billing formats, and effective implementation of consumer protection guidelines. The study contributes to the literature on consumer behaviour and pricing transparency by providing empirical evidence on consumer perceptions of restaurant billing practices in India.

1. Introduction

The Indian restaurant industry has experienced significant growth in recent years due to increasing urbanisation, rising disposable income, changing lifestyles, and the growing preference for dining outside the home. Along with this growth, restaurant billing practices have become more complex, incorporating multiple pricing components such as Goods and Services Tax (GST), service charges, and other applicable fees. While GST is a statutory indirect tax levied by the Government of India, service charges are imposed by restaurants as a charge for the services provided and are governed by consumer protection guidelines. The simultaneous appearance of these components on restaurant bills has created considerable confusion among consumers regarding their nature, legality, and mandatory applicability.

Consumer awareness of billing practices has gained increasing importance following the issuance of guidelines by the Central Consumer Protection Authority (CCPA), which clarified that service charges should not be imposed automatically or represented as compulsory payments. Despite these regulatory interventions, many consumers continue to misunderstand the distinction between GST and service charges, often assuming that both are government-imposed taxes. Such misconceptions may influence payment behaviour, customer satisfaction, perceptions of pricing fairness, and trust in restaurant billing practices.

Transparency in pricing is recognised as a fundamental element of consumer protection and informed decision-making. Previous studies have emphasised that consumers perceive pricing practices as fair when all charges are clearly communicated before purchase decisions are made. However, limited empirical evidence is available regarding the extent to which Indian consumers understand the legal and functional differences between GST and service charges and how this understanding influences their restaurant experiences.

Against this background, the present study investigates consumer confusion regarding GST and service charges in restaurant billing by analysing primary data collected from restaurant customers. The study seeks to assess consumer awareness, identify the factors contributing to confusion, and provide recommendations for improving billing transparency and consumer education. The findings are expected to contribute to the existing literature on consumer behaviour, pricing transparency, and consumer protection while offering practical implications for policymakers, restaurant operators, and regulatory authorities.

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2. Literature Review

Joung, Choi and Choi (2025) compared consumers' perceptions of restaurant surcharges with menu price increases to examine the impact of pricing strategies on customer acceptance. The study found that consumers considered menu price increases to be fairer than separate surcharges. Although disclosure improved transparency, it did not completely eliminate negative perceptions towards additional charges. The findings highlight the importance of clear billing practices in reducing consumer confusion.

Lee et al. (2026) investigated consumer reactions to unexpected surcharges in restaurant bills. The study reported that even small surcharges reduced perceived fairness and revisit intention because consumers considered such charges inconsistent with transparent pricing practices. The findings suggest that unclear billing components contribute significantly to consumer dissatisfaction and misunderstanding.

Nguyen et al. (2021) examined the role of information transparency in restaurant pricing. The study concluded that consumers were willing to pay higher prices when restaurants provided complete and transparent pricing information. Transparent billing enhanced trust, satisfaction, and willingness to purchase, demonstrating the importance of clearly communicating all billing components.

The Central Consumer Protection Authority (CCPA) Guidelines clarified that restaurants should not automatically impose service charges or represent them as mandatory payments. The guidelines emphasise consumers' right to receive transparent billing information and distinguish optional service charges from statutory taxes. These regulatory measures seek to minimise consumer confusion and promote fair trade practices.

Competition and Consumer Protection Commission (2026) examined consumers' perceptions of tipping and additional charges in hospitality services. The report observed that consumers increasingly expected transparent billing and expressed dissatisfaction when optional charges appeared compulsory. The findings reinforce the need for greater clarity in restaurant billing practices and consumer communication.

Xia, Monroe and Cox (2004) reviewed research on price fairness and concluded that consumers evaluate prices based not only on the amount charged but also on transparency and procedural fairness. Unexpected or poorly explained charges were found to reduce customer satisfaction and increase perceptions of unfairness. Although the review did not specifically examine restaurant service charges, its findings provide a strong theoretical basis for understanding consumer reactions to complex billing structures.

Zeithaml (1988) proposed that perceived value is determined by consumers' assessment of the benefits received relative to the price paid. The study demonstrated that customers' perceptions of fairness and value significantly influence purchasing decisions. These insights help explain why

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consumers may react negatively when service charges are confused with statutory taxes such as GST.

2.1 Synthesis of Literature

The reviewed studies consistently demonstrate that pricing transparency is essential for maintaining consumer trust and confidence in restaurant billing practices. Previous research indicates that consumers respond more positively to clearly communicated prices than to separate surcharges or unexpected additional charges. Transparent disclosure enhances customer satisfaction, whereas unclear billing components reduce perceived fairness and increase consumer confusion. Regulatory guidelines further emphasise the importance of distinguishing optional service charges from statutory taxes to ensure informed consumer decision-making.

2.2 Critical Evaluation

Although previous studies have examined pricing transparency, surcharge disclosure, and consumer fairness perceptions, they largely focus on international restaurant markets and general pricing strategies. Limited research specifically investigates consumers' ability to distinguish service charges from GST in the Indian restaurant industry. Furthermore, empirical evidence regarding the effectiveness of regulatory guidelines in reducing consumer confusion remains inadequate. This indicates the need for research that directly examines consumer understanding of different billing components.

2.3 Research Gap

Existing literature has extensively examined pricing transparency and consumer fairness; however, limited empirical research has explored consumer confusion between GST and service charges in restaurant billing. Previous studies rarely investigate whether consumers understand the legal distinction between statutory taxes and restaurant-imposed service charges or how such confusion influences their payment decisions. Therefore, the present study seeks to examine consumers' understanding of GST and service charges and identify factors contributing to confusion in restaurant billing practices.

3. Statement of the Problem

Restaurant bills frequently include multiple pricing components, including GST and, in some cases, service charges. Although GST is a statutory tax imposed by the Government, service charges are levied by restaurants and are subject to consumer protection guidelines. Many consumers, however, fail to distinguish between these two components and often perceive both as compulsory payments. Such confusion may affect consumer decision-making, pricing transparency, and confidence in restaurant billing practices. Therefore, it is necessary to examine the extent of consumer confusion regarding GST and service charges and generate empirical evidence to support transparent billing and informed consumer choice.

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4. Objectives:

1. To examine consumers' awareness of the difference between GST and service charges in restaurant billing.
2. To assess the extent of consumer confusion regarding the applicability of GST and service charges.
3. To identify the factors contributing to consumer misunderstanding of restaurant billing components.
4. To analyse consumers' perceptions of transparency and fairness in restaurant billing practices.

5. Research Methodology

The present study is empirical in nature and adopts a descriptive research design to examine consumer awareness and confusion regarding GST and service charges in restaurant billing. Primary data were collected from restaurant consumers using a structured questionnaire developed through Google Forms. The questionnaire consisted of dichotomous (Yes/No/Not Sure) questions and five-point Likert scale statements to measure respondents' awareness, perceptions, and opinions regarding restaurant billing practices. The respondents were selected using the convenience sampling technique. A total of 114 responses were received, of which 107 valid responses were considered for the study after excluding responses that did not satisfy the screening criteria. Secondary data were collected from research articles, books, government reports, CCPA guidelines, and other authentic published sources to support the theoretical framework of the study. The collected data were classified, tabulated, and analysed using frequency and percentage analysis to achieve the objectives of the study.

6. Results and Discussion

Table 1: Consumers' Opinion on Whether GST and Service Charge Are the Same

Response	Frequency	Percentage
Yes	17	15.9
No	81	75.7
Not Sure	9	8.4
Total	**107**	**100.0**

Interpretation

Nearly **three-fourths of the respondents (75.7%)** correctly stated that GST and service charges are not the same, indicating a reasonable level of basic awareness among restaurant consumers. However, **24.3%** of respondents either believed that both charges are the same or were uncertain, suggesting that a considerable proportion of consumers still experience confusion regarding the

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nature of these charges. This highlights the continuing need for consumer education and transparent billing practices.

Table 2: Ability to Distinguish Between GST and Service Charge

Response	Frequency	Percentage
Yes	63	58.9
No	13	12.1
Not Sure	31	29.0
Total	**107**	**100.0**

Interpretation

Although a majority of respondents (**58.9%**) reported that they could distinguish between GST and service charges, a substantial proportion (**41.1%**) either could not distinguish between them or were uncertain. This indicates that while general awareness exists, many consumers still face difficulty interpreting restaurant bills correctly. The findings support the need for clearer disclosure of billing components by restaurants.

Table 3: Consumers Experiencing Confusion About Restaurant Bills

Response	Frequency	Percentage
Yes	40	37.4
No	67	62.6
Total	**107**	**100.0**

Interpretation

The results reveal that **37.4%** of respondents have experienced confusion regarding the charges shown on restaurant bills, whereas **62.6%** reported no such confusion. Although the majority did not experience confusion, the proportion of confused consumers is sufficiently high to warrant attention from restaurants and regulatory authorities. Improving billing transparency and clearly distinguishing statutory taxes from optional service charges could reduce consumer misunderstanding.

Table 4: Opinion on Clear Disclosure of Service Charge Policy

Response	Frequency	Percentage
Strongly Agree	47	43.9

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Response	**Frequency**	**Percentage**
Agree	48	44.9
Neutral	8	7.5
Disagree	4	3.7
Strongly Disagree	0	0.0
Total	**107**	**100.0**

Interpretation

The findings indicate that an overwhelming majority of respondents (**88.8%**) either agreed or strongly agreed that restaurants should clearly disclose their service charge policy before billing customers. Only **3.7%** disagreed with the statement. This reflects a strong consumer preference for transparency in restaurant billing and reinforces the importance of providing clear information regarding optional service charges.

Table 5: Consumer Perception of Fairness and Freedom of Choice

(a) Adding service charges without customer consent is unfair

Response	**Frequency**	**Percentage**
Strongly Agree	54	50.5
Agree	42	39.3
Neutral	6	5.6
Disagree	5	4.7
Strongly Disagree	0	0.0
Total	**107**	**100.0**

(b) Consumers should have complete freedom to decide whether to pay service charges

Response	**Frequency**	**Percentage**
Strongly Agree	54	50.5
Agree	35	32.7
Neutral	10	9.3
Disagree	6	5.6

Response	Frequency	Percentage
Strongly Disagree	2	1.9
Total	**107**	**100.0**

Interpretation

A substantial majority of respondents (**89.8%**) considered the imposition of service charges without customer consent to be unfair. Similarly, **83.2%** agreed that consumers should have complete freedom to decide whether to pay service charges. These findings demonstrate that respondents strongly support consumer choice and informed consent in restaurant billing practices.

Table 6: Restaurant Freedom and Government Regulation

(a) Restaurants should have the freedom to levy service charges if customers are informed in advance

Response	Frequency	Percentage
Strongly Agree	34	31.8
Agree	41	38.3
Neutral	15	14.0
Disagree	13	12.1
Strongly Disagree	4	3.7
Total	**107**	**100.0**

(b) The Government should strictly regulate service charge practices

Response	Frequency	Percentage
Strongly Agree	53	49.5
Agree	42	39.3
Neutral	7	6.5
Disagree	4	3.7
Strongly Disagree	1	0.9
Total	**107**	**100.0**

Interpretation

Interestingly, respondents expressed balanced views regarding restaurant autonomy and consumer protection. While **70.1%** agreed that restaurants may levy service charges if customers are informed

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in advance, an even larger proportion (**88.8%**) supported stricter government regulation of service charge practices. This suggests that consumers do not object to service charges in principle; rather, they expect transparency, prior disclosure, and appropriate regulatory oversight.

Table 7: Overall Opinion Regarding Service Charges

Opinion	Frequency	Percentage
Should be completely banned	16	15.0
Acceptable only if optional	66	61.7
Should be mandatory	4	3.7
Depends on the quality of service	21	19.6
Total	**107**	**100.0**

Interpretation

The overall opinion of respondents clearly indicates a preference for **optional service charges**. Nearly **61.7%** believed that service charges are acceptable only when customers have the freedom to decide whether to pay them. Another **19.6%** felt that payment should depend on the quality of service received, while only **3.7%** supported mandatory service charges. These findings indicate that consumers generally favour transparent and voluntary billing practices rather than compulsory charges.

7. Major Findings

Table 8: Summary of Objectives and Key Findings

Objective	Variables Examined	Key Finding
Objective 1: To examine consumers' awareness of the difference between GST and service charges in restaurant billing.	Difference between GST and service charge; ability to distinguish between them	**75.7%** of respondents correctly stated that GST and service charges are different, while **58.9%** reported that they could distinguish between them. However, a sizeable proportion still lacked clarity, indicating the need for greater consumer awareness.
Objective 2: To assess the extent of consumer confusion regarding the applicability of GST and service charges.	Experience of confusion while reading restaurant bills	**37.4%** of respondents experienced confusion while interpreting restaurant bills, suggesting that billing practices continue to create uncertainty among many consumers.
Objective 3: To identify the factors contributing to	Clarity of service charge disclosure; perceptions	Consumers attributed confusion mainly to inadequate disclosure of service charge

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Objective	Variables Examined	Key Finding
consumer misunderstanding of restaurant billing components.	regarding mandatory service charges; freedom of consumer choice	policies and the perception that service charges are compulsory. **88.8%** supported prior disclosure, while **89.8%** believed that charging service fees without consent is unfair.
Objective 4: To analyse consumers' perceptions of transparency and fairness in restaurant billing practices.	Transparency, fairness, government regulation, and overall opinion on service charges	Respondents strongly favoured transparent billing, voluntary payment of service charges, and stronger government regulation. **61.7%** preferred service charges to remain optional, while **88.8%** supported stricter regulatory oversight.

1. The study found that **75.7%** of the respondents were aware that GST and service charges are different, while **24.3%** either believed they were the same or were uncertain, indicating that consumer confusion still exists despite reasonable overall awareness.
2. Although **58.9%** of the respondents reported that they could distinguish between GST and service charges, **41.1%** either could not differentiate them or were unsure, suggesting that many consumers still face difficulty interpreting restaurant bills.
3. About **37.4%** of the respondents had experienced confusion while reading restaurant bills, indicating that billing practices continue to create uncertainty among a considerable section of consumers.
4. An overwhelming **88.8%** of the respondents agreed that restaurants should clearly disclose their service charge policy before billing customers, reflecting a strong demand for transparency.
5. Nearly **89.8%** of the respondents believed that adding service charges without customer consent is unfair, demonstrating widespread support for informed consumer choice.
6. A substantial **83.2%** of the respondents opined that consumers should have complete freedom to decide whether to pay service charges, indicating a preference for voluntary rather than compulsory payments.
7. While **70.1%** of the respondents accepted that restaurants may levy service charges if customers are informed in advance, **88.8%** simultaneously supported stricter government regulation, indicating that consumers favour both business autonomy and regulatory oversight.
8. The majority (**61.7%**) believed that service charges should remain optional, whereas only **3.7%** supported mandatory service charges, confirming that consumers strongly prefer transparent and voluntary billing practices.

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8. Conclusion

The present study examined consumer confusion regarding GST and service charges in restaurant billing practices in India. The findings reveal that although a majority of consumers possess basic awareness of the distinction between GST and service charges, a considerable proportion continues to experience confusion while interpreting restaurant bills. This confusion primarily arises from inadequate disclosure, the simultaneous display of multiple billing components, and misconceptions regarding the legal status of service charges.

The study further establishes that consumers strongly favour transparency, informed consent, and freedom of choice in restaurant billing. Respondents generally do not oppose the collection of service charges when they are clearly disclosed and voluntarily paid. However, they strongly oppose the automatic imposition of service charges without prior information or customer consent. The findings also indicate widespread public support for stronger regulatory oversight to ensure fair billing practices.

Overall, the study concludes that improving billing transparency, enhancing consumer awareness, and ensuring compliance with consumer protection guidelines will significantly reduce confusion and strengthen consumer confidence in the restaurant industry. The study contributes to the literature on consumer behaviour, pricing transparency, and consumer protection by providing empirical evidence from the Indian restaurant sector.

9. Policy Implications

Based on the findings of the study, the following policy implications are suggested:

1. Restaurants should clearly disclose their service charge policy on menus, digital platforms, and at the entrance before customers place their orders.
2. Bills should distinctly separate statutory taxes such as GST from optional service charges using simple and easily understandable terminology.
3. Government agencies, particularly consumer protection authorities, should conduct public awareness campaigns explaining the legal distinction between GST and service charges.
4. Restaurants should train billing staff to explain different billing components whenever customers seek clarification.
5. Regulatory authorities should periodically monitor compliance with consumer protection guidelines relating to service charges and take appropriate action against misleading billing practices.
6. Digital billing systems and restaurant management software should adopt standardized bill formats that clearly distinguish government taxes from optional charges.

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7. Consumer education regarding restaurant billing may be incorporated into broader financial and consumer literacy initiatives.

10. Limitations of the Study

The study is subject to the following limitations:

1. The study is based on a convenience sample of **107 valid respondents**, which may not fully represent the entire population of restaurant consumers in India.
2. The study primarily measures consumer perceptions and self-reported experiences, which may be influenced by individual interpretation and response bias.
3. The research is cross-sectional in nature and reflects consumer opinions during the period of data collection only.
4. The study focuses exclusively on restaurant billing practices and does not examine service charge practices in hotels or other hospitality establishments.
5. The analysis is based mainly on descriptive statistical techniques; advanced inferential analysis was not undertaken.

11. Scope for Future Research

Future studies may extend the present research in several directions:

1. Similar studies may be conducted with larger and more geographically diverse samples to improve the generalizability of the findings.
2. Comparative research may be undertaken across different categories of restaurants such as quick-service restaurants, fine dining establishments, cafés, and hotel restaurants.
3. Future studies may examine the impact of consumer education campaigns on awareness regarding GST and service charges.
4. Researchers may employ advanced statistical techniques such as Chi-square tests, regression analysis, structural equation modelling, or factor analysis to identify determinants of consumer confusion and payment behaviour.
5. Comparative international studies may examine how different countries regulate service charges and consumer billing practices.
6. Future research may also investigate restaurant owners' perspectives regarding service charges, operational costs, and pricing strategies.

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The writers affirm that they have no connections to, or engagement with, any group or body that provides financial or non-financial assistance for the topics or resources covered in this manuscript.

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CONFLICTS OF INTEREST

The authors declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

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