

## **Tourism Sector and Goods Service Tax (GST) in India**

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### **I. Introduction**

Tourism is a most desirable human activity; which is capable of changing the socio-cultural, economic and environmental face of the World. Tourism is one of the largest and fastest growing industries in the world; it has the potential to influence the living pattern of communities. It is one of the most important channels of cultural exchange which breaks down the barriers between people of different parts of the world. It is the collection of activities, services and industries that deliver a travel experience including transportation, accommodation, eating and drinking, establishments of retail shops, entertainment, business and other hospitality services provided for individuals or group of individuals travelling away from home.

India is a diverse Country, with over 1.3 billion people following various cultures, traditions, languages, festivals, religions. Equally diverse are the category of tourism activity that India offers to her people as well as to the people across the world. Such diversity owe largely to the geographic, climatic and traditional multiplicity seen in India's twenty-nine states and seven union territories.

Tourism has emerged as a key sector of the world economy and has become a major workforce in global trade. It has been making a revolutionary and significant impact on the world economic scenario. Tourism has been identified as the major export industry in the world. The multifaceted nature of this industry makes it a catalyst to economic development and helps balanced regional development. It is a low capital, labour intensive industry with economic and regional development, multiplier effect and offer opportunities to earn foreign exchange at low social cost.

Tourism industry acts as a powerful agent of both economic and social changes. It stimulates employment and investment, alters structure of the economy, makes a significant contribution towards foreign exchange earnings and maintains favorable balance of payment. The money spent by the tourist in a country is turned over several times in the process; the total income earned from tourism is a number of times more than actual spending. The multiplier effect of tourism receipts is completely recognized as spreading to secondary and tertiary sectors of an economy. Tourism has to its credit economic, social, cultural, educational and political significance. Marketing and promotion are of vital importance in tourism sector due to the competitiveness of tourism industry both within and between tourism generating nations. Tourism industry creates direct, indirect and induced employment. It produces a vast spectrum of employment from highly qualified and trained managers of star hotels to room boys, sales girls and artisans. With its faster growth new horizons of employment open up for youth of the developing countries.

In developing countries like India tourism has become one of the major sectors of the economy, contributing to a large proportion of the National income and generating huge employment opportunities. It has become the fastest growing service industry in the country with great potentials for its further expansion and diversification.

### **Tourism and GST**

Tourism is the largest service sector in India, with a contribution of 6.6 Percent to the National Gross Domestic Product and 8.78Percent of total employment in India. India attracts more than five million foreign tourists and 562 million domestic tourists annually. The tourism industry in India generated about US\$100 billion in 2008 and is expected to increase to US\$ 275.5 billion by 2018 with 9.4 percent annual growth rate.

Tourism and hospitality industry in India recently got updated with a new set of Goods and Services Tax (GST) rates that will be rolled out from July 1, 2017. It will be applied on their services based on the tariffs and turnover they draw, the GST council has finalized.

GST is the biggest tax reform in India after independence, founded on the nation of 'one nation and one tax system. The GST come into effect from July 1, 2017 through the implementation of 101 amendment of the Constitution of India by the Government of India. GST replaced existing multiple cascading taxes levied by the state and central Governments. The tax rates, rules and regulation are governed by the Goods and Services Tax Council which comprises finance minister of Center and all States.

### **Composition of Tourism Industry:**

Tourism industry is a small part of the total leisure industry, which includes many attractive activities. Tourism is a complex industry. For the success of modern tourism and the comfortable journey of tourists, there is a need for co-ordination between the primary and secondary trades of tourist industry. Composition of tourism industry can be classified as primary travel trades and secondary travel trades. Primary Travel trades include hotel industry, food and beverage industry, Transport industry and Travel agency. Secondary Travel Trades include retail shops, banking and financial institution, laundries and suppliers of goods and services.

### **Primary Travel Trades:**

**Accommodation:** It is one of the most important segments of the tourist services needed at the destinations. Various types of accommodation facilities used by the tourists are hotels, resorts, home stays, estate stays, youth hostels etc.,. It is the key element in the tourism product and an essential component of tourism. Hotels provide accommodation, meals and refreshment for tourists. Hotel is an establishment which supplies boarding and lodging. Hotels can be classified as five star deluxe, five star, four star, three star, two star, one star, and heritage hotels.

**Transport Industry:** Tourists require transport in order to visit the different tourism spots throughout the country. Hence, the air, rail, sea and road transportation facilities should be expanded. It is the primary tourist service needed by the tourist in order to reach the destination.

**Travel agent and tour operators:** Travel agents and tour operator fulfill an intermediary front between the tourists and the providers of transport and accommodation in particular destination.

### **Secondary travel trades:**

Secondary travel trade comprises retail shops, bank and financial institutions, laundries, supplier of goods and services for hoteliers, caterers and transport undertaking. Retail shops are very important in tourism industry which includes souvenirs, antiques and gifts. Suppliers of goods and services include entertainment, public utility, building firms, insurance company etc.,. Entertainment include theaters, cinema, festivals, sports, adventures etc.,.

**Tourist attractions:** Holiday resorts, scenic beauty, mountains, beach, sports, recreation, leisure and relaxation should provide to meet the demands of the tourists.

**Entertainment:** Development of various entertainment forms such as provision of restaurants, music and dance, theaters and shopping are an integral part of tourism industry. In addition to monuments and memorial, arts and crafts, festivals and religious activities, the tourists are also interested in a variety of entertainment.

### **Highlights of new GST rates**

- I. Restaurants with a turnover of less than Rs 75 lakhs will be levied a tax rate of 5%.
- II. Non-AC restaurants will have a 12% tax rate. AC restaurants will have to shell out 18% tax.
- III. Hotels, lodges with tariffs less than Rs.1000 will be taxed at Zero percent.
- IV. Hotel, lodges with tariffs between Rs.1000 to Rs.2500 will be charged 12% tax
- V. Hotel, lodges with tariffs between Rs.2500 to Rs.7500 will be charged 18% tax.
- VI. Hotel, lodges with tariffs above Rs.7500 will be charged 28% tax

### **Impact of GST on Tourism and hospitality sector**

Introduction of GST in India on Tourism and hospitality sector shall be impacted both positively and negatively.

#### **Positive impact of GST on Tourism and hospitality sector:**

##### **1. Uniformity in Taxes**

The multiple taxes would be replaced by one single tax, the rate of which is likely to be between 16% to 18%.The sector may benefit in the form of lower tax rates which should help in attracting more tourists in India.

##### **2. Increased Revenue for State Government:**

Under GST the place of supply is shifted to the place where immovable property is situated in case of hotels, restaurants and monuments for sightseeing. This will increase the revenue of such states where immovable property is located. Currently, on such income, states charges local luxury tax on hotel stay and VAT on food supplied. While Union Government gets revenue from Service Tax on such services. Because of GST, the states having maximum tourist places, hotels and restaurants for tourist shall earn the maximum revenue by way of SGST which will be equivalent to CGST. In the case of passenger travelling, the state with the maximum outbound journey shall earn the highest revenue so the station or the port having highest outbound flights, train journey or local cab journey shall earn substantial revenue.

### **3. Saving in food and beverage operations:**

Companies specializing in food and beverages operations could be the biggest beneficiaries of GST with in the hospitality sector. Food and beverages bills have multiple components which inflate the bills by 30% to 35%. It is expected that GST to result in savings of 10% to 15% on the overall bill.

### **4. Effect of Taxes:**

The Tourism industry is one of the industries which are levied with multiple taxes by State and Central Government as VAT, Luxury tax and Service tax. The value of VAT varies from 12% to 14.5% according to State. The luxury tax varies from zero to 12% depending on room type and service tax varies according to the type of service provided.

With the implementation of GST, the cascading taxes would combine. AC restaurants and those with liquor license will be taxed at 18%. Restaurant with Rs.50 lakhs or below turnover will go under the 5% composition. As per industry figures, the tourism sector employs nearly 37 million directly and indirectly and generates an annual revenue of about Rs 14lakhs crore.

### **Negative Impact of GST on Tourism and Hospitality sector:**

#### **1. Multiple Registrations:**

Service providers having centralized registration will have to get registered in each state from where they provide services. Although Government has claiming "One Nation One Tax", practically it is not going to be so. Service providers will have an option to take different registration for separate business verticals which need to be examined on a case by case basis. Every state has been constitutionally granted right to collect GST on services.

#### **2. Increased compliance Burden**

The procedure for all the invoices/receipts towards inward and outward supplies will become cumbersome as each one of them will have to be uploaded in the system. The concept of credit matching under GST would be very difficult to handle and would lead to increase in working capital requirements.

The frequency and number of returns to be filed will go up. In place of a half yearly service tax return, under GST law, one will be required to file state wise monthly three GST returns along with an annual return will also be required to be filed.

#### **3. No Credit on work contract services**

The hotel industry spends a lot of money on construction and renovation. The money paid as taxes on the works contract services when supplied for construction of an immovable property is not allowed for this sector when such services are not used for the further supply of works contract service. This would have a negative cascading effect despite strong promises being made by the government in this regard.

Any proposal to make supplier of goods or services liable to pay tax under reverse charge when receiving supply from an unregistered supplier can increase burden in case of B2B transaction on registered assesses.

#### **4. Liquor not included:**

Liquor should have been included in GST to ensure the seamless credit for the tourism industry. Exclusion of liquor from GST regime defeats the very purpose of bringing in a uniform tax structure across the nation.

#### **5. Impact on electricity:**

One of the worries of the hotel industry which is an important part of tourism industry is the non-inclusion of electricity in GST. There won't be a single GST for the same. Hotels are known to consume tolls of electricity and not covering it under GST means not being able to fetch benefit from the input credit of the items.

#### **6. Transportation:**

It comprises airline companies, cruise services, railways, car rentals and lots more. A tourist's choice of transport would depend on the travel budget, destination, time, purpose of the tour and convenience to the point of destination. With the advent of GST, transport sector gets affected too. The supply of tour operator services will be taxed at 5% with no benefit of input tax credit facility.

#### **7. Research and Development cess:**

The research and development cess applicable on technical know-how and franchise fees are likely to be a part and parcel of GST regime. So this is how tourism industry would likely be affected or rather be impacted by the GST.

## **II. Conclusion**

GST has been one of the most awaited tax reforms for India. We would like to draw inference that high GST rates on hospitality may prove to be detrimental for the sector which is already reeling under the pressure of demonetization and liquor ban on highways. However, liquor should have been included in GST to ensure the seamless credit for tourism industry. Since, players in this industry make the most of its consumption. The high incidence of taxes may make India less competitive when it comes to tourism as international tourists may skip the destination. The government should appreciate that countries like Myanmar, Thailand, Singapore, Indonesia and others levy taxes ranging from 5% to 10%. India cannot afford to have these kind of complex and high GST. A lower tax rate for budget hotels sector will ensure that the industries quality upgrade continues while delivering standardized accommodation to millions of middle-class travelers. People like consolidation of taxes as it leads to greater transparency and will help guests and buyers to understand the overall costs. Companies specializing in food beverages operations could be the biggest beneficiaries of GST within the hospitality sector.