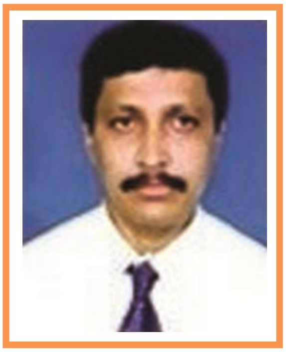

IMPACT OF GST ON THE TRAVEL & TOURISM SECTOR IN INDIA

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Introduction

Tourism represents world's third largest export avenue in terms of global earnings after fuel and chemicals. Modern tourism is closely linked to socio- economic development. Tourism is responsible for one out of 11 jobs and 10% of the world's economic output. Apart from providing employment, income and **foreign exchange** for the country, the trade in the tourism sector has an economically positive impact on other associated industries such as food manufacturing, services, construction, agriculture, handicrafts etc.

Hospitality is not only a high foreign exchange grosser; it is also among the largest tax generators. There are multiple taxes charged on the same Service/ Product offering by the Central as well as State Governments. It is an understanding that the Taxes levied on Inbound Tourism is among st the highest in the country, and this is one of the major reasons for India losing Foreign Tourists to competing South East Asian Countries.

On the historic midnight of 30th June 2016, India's PM Narendra Modi ushered the country into the age of GST – 'One Nation One Tax'. Being an impartial tax framework, the effects of GST can be seen across all domains. **The Indian Tourism industry** which was valued at US$ 136.2 in 2016 has also faced the impact of GST. Endevour is placed in this article to highlight the GST impact on travel and tourism industry in India.

India's biggest tax reform yet has been met with an equal measure of praise and criticism. While the implementation of the Goods and Service Tax promises to add a significant edge to the economy, by reducing costs for customers, integrating taxes, and reducing business transaction costs, it will also increase costs for businesses as well the burden of compliance.

The hospitality and tourism industry is one such sector in the economy that is deliberating over the new tax regime. Hospitality is one of the most competitive and steadily growing industries in the country. The tourism industry contributes nearly $136 billion to India's GDP and is expected to further grow to US$ 280.5 billion by 2026. Hospitality and tourism are also among the highest employment generating sectors and among the top 10 sectors in the country with the highest volume of foreign direct investment. In addition to being one of the top sources of foreign exchange, tourism is also among the highest tax generating sectors in the country.

Hospitality sector and GST: Before and after

In the former indirect taxation regime, the state government would first charge VAT, luxury and entertainment tax, while the central government would then levy a whole different set of taxes such as excise duty, service tax, customs duty and central state tax. Consider the VAT, for instance, which is often charged by state governments on a value already including an excise duty. Hence, with different states having their own tax rates, hotels and hospitality businesses had no option to avail an input tax credit since the burden of central taxes cannot be set off against state taxes like VAT, or vice versa.

In the previous regime, a hotel with room tariffs exceeding Rs. 1,000 would be liable to pay 15 percent service tax. A deduction of 40% allowed on the tariff value would bring the effective rate of service tax down to 9%, but its effect was negligible since the VAT and luxury tax would still apply. Such a cascading effect of the tax regime rolls down right to the end customer, who bears the burden of paying taxes on taxes.

Assigning GST rates for hotels and restaurants against annual turnovers is a progressive move by the authorities. One of the major benefits of GST to the hospitality and tourism sector is that it will eliminate multiple taxation by subsuming all taxes previously levied under one single entity. The promise of 'one nation, one tax' will also increase the ease of doing business in the country with the provision of standardized tax rates and flexible criteria to avail input tax credit.

The rates in the overall hospitality sector, however, have a complex classification and are on the higher end. Since inception the rate applicable for Hospitability and restaurant services is as follows:

RATE OF GST ON FOOD & BEVERAGES (F&B) SALE

1. All stand-alone restaurants irrespective of air conditioned or otherwise, will attract 5% without ITC. Food parcels (or takeaways) will also attract 5% GST without ITC.
2. Restaurants in hotel premises having room tariff of less than Rs 7500 per unit per day will attract GST of 5% without ITC.
3. Restaurants in hotel premises having room tariff of Rs 7500 and above per unit per day (even for a single room) will attract GST of 18% with full ITC.

The GST rates for non-AC restaurants are 12% on food, while AC restaurants and those with liquor licence, including restaurants in five-star hotels will be levied with 18% GST. Hotels with room tariffs between Rs. 2,500 and Rs. 7,500 will be charged 18% tax while those with daily tariffs above Rs. 7,500 will be levied a GST of 28%. However, the GST Council have after listening to a number of representation from the Industry, agreed to reduce the rate of services in restaurant at 5%. A detailed study is given towards end of this article.

Dining out will turn cheaper after GST council entered into the issue with the GST Council slashing the tax on restaurant bills. A uniform 5 per cent tax will be levied for all restaurants, both air-conditioned and non-AC made a big relief to the common people. Earlier a 12 per cent GST on the food bill is levied in non-AC restaurants and 18 per cent in air-conditioned ones.

All these restaurants were also given an input tax credit benefit, a facility which sets off tax paid on inputs against the final tax to be paid by consumers. These restaurants, however, did not pass on the input tax credit (ITC) benefit to customers and continued to charge the 12 or 18 per cent GST.

Therefore, the ITC facility is being withdrawn and a uniform 5 per cent tax is levied on all restaurants without the distinction of AC or non-AC, the finance minister explained. Restaurants in starred-hotels that charge Rs 7,500 or more per day room tariff will be levied 18 per cent GST but ITC is allowed for them.

Those restaurants in hotels charging less than Rs 7,500 room tariff will charge 5 per cent GST but will not get ITC,. The Federation of Hotel and Restaurant Associations of India (FHRAI) on Friday said GST Council's decision to cut tax rate for restaurants to 5 per cent without input tax credit will help restaurants across India rationalise tariffs.

Welcoming the move by the council, the apex industry body said it had sought bringing down GST rate on restaurants to 12 per cent with input tax credit or at 5 per cent without input tax credit. This decision of the council was a certainly historic. The very concept of Input Tax Credit (ITC) is central to GST which is to prevent cascading of taxes."

The top tax rate is now restricted to luxury and demerit goods like pan masala, aerated water and beverages, cigars and cigarettes, tobacco products, cement, paints, perfumes, ACs, dish washing machine, washing machine, refrigerators, vacuum cleaners, cars and two-wheelers, aircraft and yacht.

There is good news for budget conscious travellers as small and budget hotels with daily room tariffs of Rs. 1,000 will be exempt from the GST schedule, while those charging up to Rs. 2,500 per day will pay 12. Allotting a lower tax bracket to small restaurants and budget hotels will help them grow and enable them to enhance their service quality and standards on a regular basis. Currently, low to medium budget hotels constitute nearly 80% of India's hospitality market, so a low tax burden on these hotels will also help create thousands of new jobs.

RATE OF GST ON HOTEL ROOMS

Note – GST is charged based on the Declared Room Tariff which is explained as below:-

*"**declared tariff** includes charges for all amenities provided in the unit of accommodation (given on rent for stay) like furniture, air conditioner, refrigerators or any other amenities, but without excluding any discount offered on the published charges for such unit."*

I) RATE OF GST – Renting of hotels, inns, guest houses, clubs, campsites or other commercial places meant for residential or lodging purposes:-

1. Declared Room Tariff upto Rs. 999/-: GST @ NIL [Remark – No ITC Credit]
2. Declared Room Tariff from Rs. 1000/- upto Rs. 2499/- : GST @ 12% [ITC Credit allowed]
3. Declared Room Tariff from Rs. 2500/- upto Rs. 7499/- : GST @ 18% [ITC Credit allowed]
4. Declared Room Tariff from Rs. 7500/- and above: GST @ 28% [ITC Credit allowed]

[NOTE: GST Rate is decided on the basis of Declared Room Tariff but the tax is chargeable only on the actual amount charged from the customer/ guest]

<u>Relevant issues on Hotel Room Tariff</u>:-

<u>1</u>: Will GST be charged on actual tariff or declared tariff for accommodation services?

Declared or published Tariff is relevant only for determining of the Tax Rate Slab. GST will be payable on actual amount charged (transaction value).

<u>2</u>: What will be the GST rate if cost goes up (more than declared tariff) owing to additional bed?

GST Rate would be determined according to declared tariff for the room, and GST at the rate so determined would be levied on the entire amount charged from the customer. For example, if the declared tariff is Rs. 7000/- per unit per day but the amount charged from the customer on account of extra bed Rs. 8000/-. GST Shall be charged @ 18% on Rs. 8000/-.

<u>3</u>: Where will the declared tariff be published?

Tariff declared anywhere, say on the website through which business is being procured or printed on tariff card or displayed at the reception will be declared tariff. In case different tariff is declared at different places, highest of such declared tariff shall be the declared tariff for the purpose of levy of GST.

<u>4</u>: Same room may have different room tariff at different times depending on season or flow of tourist as per dynamic pricing. Which rate to be used then?

In case of different tariff is declared for different seasons or periods of the year, the tariff declared for the season in which the service of accommodation is provided shall apply.

<u>5</u>: If Tariff Changes between booking and actual usage, which rate will be used?

Declared Tariff at the time of supply of the service would apply.

<u>6</u>: GST at what rate would be levied if an upgrade is provided to the customers as a lower rate?

If declared tariff of the accommodation provided by way of upgrade is Rs. 10000/-, but the amount charged is Rs. 7000/-, then GST would be levied @ 28% on Rs. 7000/-.

The impact of GST on the hospitality and tourism sector. Review of the status as to how GST will impact the overall hospitality and tourism sector:

1. Easier administration and procedures
2. By subsuming multiple taxes under a single category, GST will abolish the tax-on-tax structure, reduce the complexity of taxation procedures and streamline it.
3. Simplicity for consumers
4. Most average consumers cannot distinguish between multiple taxes and rates. With the GST regime, consumers will have a more comprehensible and transparent tax structure with only a single charge on their bill.
5. Greater technological burden

Among the pros of GST, there are also a few cons that are hard to overlook. One of them is increased burden on service providers to employ technology-based tools for taxation procedures.

While the guidelines on managing accounts and filing returns are well-defined, it will require businesses to become technologically adept, increasing the burden and cost of compliance.

1. Increased Costs
2. Businesses will increasingly look to recover the additional technology costs from their customers, which may lead to higher tariffs.
3. Lack of competitiveness with other Asian countries

While, GST will make India a bigger player in the global hospitality and tourism industry, there is no global competitiveness in tax rates. Other Asian countries such as Japan and Singapore have much lower tax rates in the hospitality sector (8% and 7% respectively) which is amongst the top reasons why tourists prefer to visit these countries and others such as Malaysia, Thailand, etc.

While the sector remains divided on the predicted impact of Goods and Services Tax, most players in the industry have welcomed the move to the new tax regime with great enthusiasm. The long-term impact, however, remains to be seen and only time will tell how and if GST does accelerate growth in the sector.

How things were Pre-GST for Tourism Sector?

Before GST was rolled out, the tourism industry was liable to pay multiple taxes (VAT, luxury tax, and service tax). Let us take the example of a hotel whose room tariff is greater than INR 1000, this hotel was liable to charge a service tax of 15%. However, the effective rate of service tax was dragged down to 9% as the Laws under VAT regime gave an abatement of 40% on the tariff value. Next, the Value Added Tax (12-14.5%) and luxury tax were added on top of this.

An abatement of 60% for Restaurants brought the effective rate of interest to 6% on F&B bills, apart from VAT (12-14.5%).

In case of Social functions like seminars, marriages etc the bills were taxed with an abatement of 30% under bundled services.

This VAT tax regime increased the final cost as an end user or customer paid a tax on tax. This was termed as cascading tax for consumer or end user. Tourism businesses and hoteliers could not avail any input tax credit on the taxes they paid, as state taxes like VAT could not be set off against central taxes like service tax and vice versa.

How things are Under GST for Indian Tourism?

With the motto **"Atithi Devo Bhava"** ('the guest is equivalent to God') Indian tourism industry was expected to reap great benefits under the new GST regime. Due to uniform tax rates and better use of input tax credit, the final cost for end-user was perceived to decrease which in turn would attract more foreign tourists. This meant more revenue for the government and assist in the growth of the industry.

However, confusion and lack of lucidity around GST has complicated the process and created trouble for consumers booking hotels during peak tourist season. As per government guidelines hotels with declared tariffs of Rs 7500 and above can charge 28% GST. But hotel owners explained that declared tariff was imprecise and unclear as prices of hotel rooms vary with seasons. Depending on the influx of people hotels could implement new tariffs several times during a year. Hence the term is misunderstood and creates confusion among travellers.

From the inception as recommended by GST Council and subsequently the law that have been framed, **hotels with tariffs less than Rs 1,000 are GST free. Hotel Rooms for Rs 1,000-2,500 are taxed at 12%** while those with a tariff of Rs 2,500-7,500 are liable for 18% tax and those **above Rs 7,500 are taxed at 28%.**

However, it could be understood that hotels depend on tourist seasons for good business, hence the invoice value should be considered for calculating the GST rate in hotels. The tax slabs appear to create confusion among customers and the solution ahead as suggested by experts is to charge taxes on invoice or transaction value rather than the declared tariffs.

Benefits of GST for Tourism Industry

If properly implemented the GST can prove to be a major benefit for the tourism and hospitality industry. The process to claim and avail ITC (input tax credit) is simple and clear. Earlier, adjusting the tax paid on inputs against the output was complex and error-prone. This is believed to have become easy with GST. Also, under GST, tourists have a clearer idea about the tax they are paying.

In general a large Indian demographic is still taking its first baby steps in accepting and living – a digital lifestyle. These include people from all sectors – social as well as finance. GST in layman terms makes the government tax revenue generation process better and easier.GST increases costs and compliances for the taxpayer, especially the business owners. Businesses will try to recover the additional cost from their customers. The tax rate on hospitality industry is less than 10% in Japan and Singapore. In order to compete in the global competition, there were suggestions for a GST rate of 5%, but GST Council felt that 18% was the right tax rate.

India has been a hotspot for International and local tourists since ages. India's Tourism and Hospitality industry is set poised to grow to US$280.5 billion by 2025. By strong implementation and closing prevailing loopholes, the initial setbacks in policy implementation can surely be overcome. For now, let's just hope that the traveller who visits this beautiful country goes back with memories and experiences worth in Gold.

GST may not be cohesive to growth

High GST rates on hospitality will be the "final nail" in the coffin for the sector which is already reeling under demonetization and liquor ban along the highways, according to industry players.

The high incidences of taxes will make India uncompetitive when it comes to tourism as international tourists will skip the country as a destination, they said.

Under the GST rates announced today, 5-star hotels will be charged 28 per cent while AC restaurants and those with liquor lic. Law and Act should be that cohesive that would like countries like Myanmar, Thailand, Singapore, Indonesia and others levy taxes ranging from 5 to 10 per cent. India cannot afford to have these kind of complex and high GST.

Understanding the GST Impact

Tourism sector shall be impacted both positively and negatively under the **GST regime**.

Positive

1. Uniformity in Taxes

The multiple taxes would be replaced by one single tax, the rate of which is likely to be between 16%-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, Restaurant & 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 or restaurants for tourist shall earn the maximum revenue by way of SGST which will be equivalent to CGST.
- In the case of Passenger traveling, 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 within the hospitality sector. Food and beverages bills have multiple components which inflate the bills by 30- 35%. It is expected that GST to result in savings of more than 15-20% on the overall bill.

Negative

1. Multiple Registration

Service providers having centralized registration will have to get registered in each state from where they provide services. Although Government has been 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 transactions on registered assessee.

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.

GST on Travel Agents & Tour Operators

GST on Travel Agents & Tour Operators & its related aspects.

Air Travel Agent

An Air Travel Agent earns two types of income:

1. commission from the Airlines for booking of air tickets;
2. income in the form of processing fees etc. from the client for whom he books the tickets.

So the Air Travel Agent shall be raising below 2 types of invoices containing the details of name, address, GST Registration Numbers of the parties to whom the invoice is being issued and details about Place of Supply.:

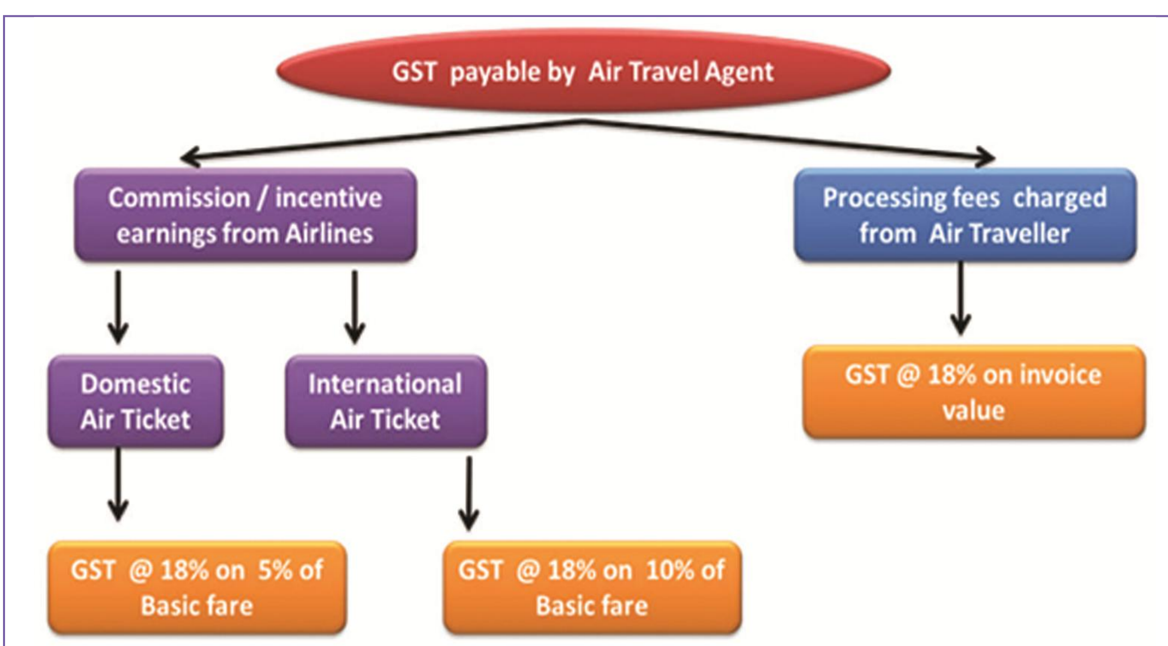
1. On the Airlines for commission for selling its Air tickets;
2. On the Air traveler for its processing fees/ service charges / facilitation charges.

As per rule 32(3) of **CGST Rules**, the value of supply of services in relation to booking of tickets for travel by air provided by **an air travel agent**, shall be deemed to be an amount calculated at the rate of:

1. **5%**of the **basic fare** in the case of **domestic bookings**, and
2. **10%**of the **basic fare** in the case of **international bookings**

Explanation – For the purposes of this sub-rule, the expression **"basic fare" means** that part of the air fare on which commission is normally paid to the air travel agent by the airline.

So, GST is payable is as par below chart:



Place of supply for an Air Travel Agent (ATA) for booking tickets to Pax

When an Air Travel Agent provides services to a person who is:

1. Located in India and the person is registered under the GST law then, the place of Supply shall be the location of service receiver;
2. Located in India but not registered under the GST Law but his address is available on records then the place of Supply shall be the location of the service receiver;
3. Located in India but not registered under the GST Law and his address is not available on records then the place of Supply shall be the location of the service provider;
4. If in case of the Air **Travel Agent** who is located in India but the Origin and Location of Airlines is not from India and the destination as well as location of passenger is not in India.

Then in the given case neither the Airlines nor the passenger will be registered under GST and nor will their address be available from the records, hence in the given case the place of supply shall be the location of service provider i.e. the location of the Air Travel Agent which is in India and hence this transaction would be liable to Tax.

Examples for place of supply in case of an Air travel Agent where ATA receives processing fees / Service charges from the Passenger (Pax):

Location of Air Travel Agent	Location of the recipient (Pax)	Supply for the Air Travel Agent	Tax to be charged by the Air Travel Agent
Delhi	Delhi	Delhi	CGST / SGST
Gurgaon (Haryana)	Delhi	Delhi	IGST

Examples for place of supply in case of an Air Travel where ATA receives Commission from the Airlines:

Location of Air Travel Agent	Location of the recipient (Pax)	Supply for the Air Travel Agent	Tax to be charged by the Air Travel Agent
Delhi	Delhi	Delhi	CGST / SGST
Delhi	Gurgaon (Haryana)	Gurgaon (Haryana)	IGST
Delhi	London (UK)	Delhi	CGST / SGST

Segment Pay-outs / commission/ incentives from CRS/GDS

Air Travel Agent also earns Segment Payouts / commission/ incentives from CRS/GDS like Ameadus, Worldspan, Galileo, Abacus for using their software for making booking in Airlines reservations systems which also would be liable for taxation under GST Law

Place of supply of services

1. In case the services are provided by the Air Travel Agents to Indian software companies, then the place of supply of services shall be the location of services receiver i.e. place of registration of Indian Software Company.
2. In case the services are provided by the Air Travel Agents to foreign software companies, then the agent would fall within the definition of "intermediary" AND the place of supply of services shall be the location of services provider i.e. place of Air Travel Agent.

VISA AND PASSPORT ASSISTANCE

The visa processing charges charged by visa statutory authorities i.e. the consulates/embassies will be exempt from the payment of GST.

Visa/passport processing charges charged only by the statutory authorities is exempt from tax.

Visa/passports are done through Visa Facilitation Centers (VFCs) authorized by embassies / Visa Handling Agents then the same shall be liable to tax.

However, when the ATA provides these services to their client after adding further fees by whatever name called he shall be liable to pay tax on them as well and he can take Input Tax Credit of the tax paid to the VFC. GST will be applicable @18% for this service.

DOMESTIC AND INTERNATIONAL MEDICLAIM POLICIES AND TRAVEL INSURANCE BY TRAVEL AGENTS

Travel Agents issues mediclaim policies and travel insurance for clients through various insurance service providers and gets commission on cut and pay basis or at the end of the month (for overseas policies)

IMPACT ON CONSUMERS

In Pre GST era, there was a composite levy of both Service tax i.e 6%, as well as, Value Added Tax i.e 14.5% (Vary from State to State) on food and beverages served by hotels and restaurants which finally put the burden of 20.5% in the pocket of ultimate consumers. However, some relief was provided for Non-AC Restaurants supplying food and beverages as no service tax was levied on these restaurants.

Post GST, the scenario shall be completely different. As discussed above that supply of food and drinks in a restaurant shall be treated as a supply of services. Hence, only GST shall be levied on such services at a lower rate which saves substantial amount as compared to the previous regime.

Further, staying in a good hotel is going to be very costlier as the rate of tax has been doubled from 9% to 18%. Even Luxury Hotels of 5 stars or above-rated charging room rent Rs. 7,500/- or above will attract 28% tax.

CONCLUSION

GST is going to be an efficient and harmonized destination-based tax system and will remove the problems faced by the sector leading to cost optimization and a free flow of transactions.

GST is a glimmer of hope for the Hotel and Tourism Industry if we can keep the GST rate between 10 to 15%. GST might herald with its uniformity of tax rates, a better utilization of input credit which in turn benefits the end user in terms of affordability.