

# Impact of GST on Tourism and Hospitality Sector



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The Indian tourism and hospitality industry has emerged as one of the key drivers of growth among the services sector in India. Tourism in India has significant potential considering the rich cultural and historical heritage, variety in ecology, terrains and places of natural beauty spread across the country. Tourism is also a potentially large employment generator besides being a significant source of foreign exchange for the country. India has moved up 13 positions to 52nd rank from 65th in Tourism & Travel competitive index. The 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. It will be applied on their services based on the tariffs and turnover they draw, the GST council has finalised.

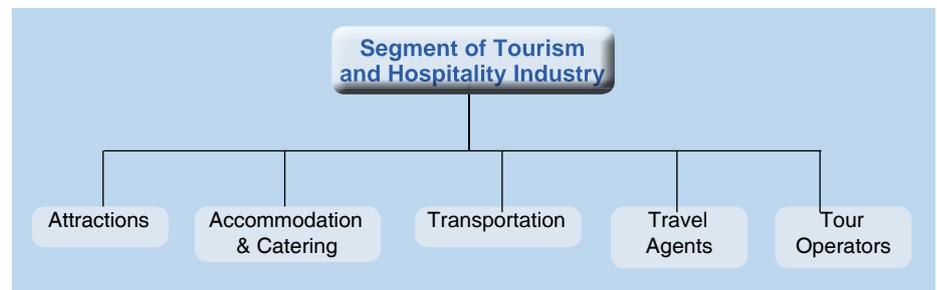
GST has been one of the most awaited tax reforms for India. High GST rates on hospitality may prove to be detrimental for the sector. The high incidence of taxes may make India less competitive when it comes to tourism as international tourists may skip the destination. The government should appreciate that countries like Myanmar, Thailand, Singapore, Indonesia and others levy taxes ranging from 5 to 10 per cent. India cannot afford to have these kind of complex and high GST. A lower tax rate for budget hotels sector will ensure that the industry's quality upgrade continues while delivering standardized accommodation to millions of middle-class-travellers. People like consolidation of taxes as it leads to greater transparency and will help guests and buyers to understand the overall costs.

Before going into details of impact of GST on tourism and hospitality sector, it would be pertinent to make the readers understand the importance of tourism and hospitality sector for emerging economy like India.

- Tourism in India accounts for 7.5% of the GDP and is the third largest foreign exchange earner for the country
- The sector's total contribution to GDP has increased to US\$ 136.2 billion by the end of 2016 and is expected to further grow to US\$ 280.5 billion by 2026
- The industry is expected to generate 13.45 million jobs across sub-segments such as Restaurants (10.49 million jobs), Hotels (2.3 million jobs) and Travel Agents/ Tour Operators (0.66 million).

As explained in the above points, the importance of tourism and hospitality sector for a growing economy like India, it would have been upheaval task for the government to fix the GST rates for the sector given its size and importance.

The segments of Tourism and Hospitality Industry can be illustrated in the following chart:

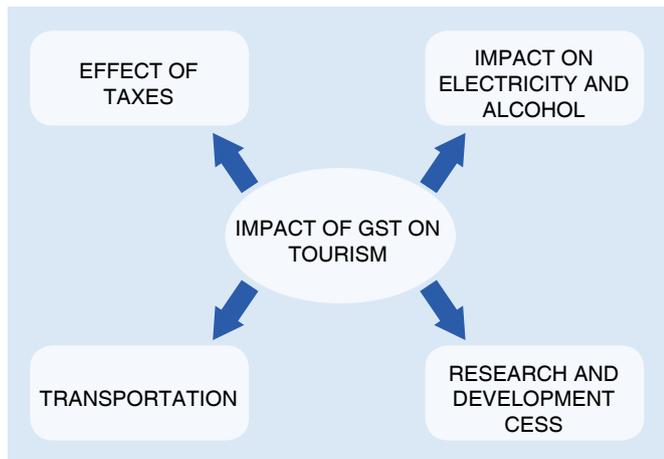


- **Attractions:** Another major component of the travel and tourism industry is

“attractions” such as theme parks and natural attractions including scenic locations, cultural and educational attractions, monuments, events & medical, social or professional causes.

- **Accommodation & Catering:** Accommodation could be on hotels and motels, apartments, camps, guest houses, lodge, bed & breakfast establishments, house boats, resorts, cabins & hostels. In addition, tourist also requires catering facilities, which include hotels, local restaurants, cafeterias and retail outlets serving food and beverages.
- **Travel Agents:** A fragmented sector with a number of independent travel agents & many online businesses. They also sell associated products such as insurance, car hire & currency exchange. Business travel agencies specialise in making travel and accommodation arrangements for business travellers and promoting conference trades.
- **Tour Operators:** Tour Operators consists of customised tours, including travel, accommodation and sightseeing. Only outbound tour sold to a foreigner for visiting another foreign country and the payment is received by convertible foreign exchange is exempt from GST. All other tours (including inbound tours for foreigners) are taxable. GST paid on the purchase of tour packages from another tour operator can be claimed as ITC and only the difference of tax can be paid to the Government. A tour operator must keep accurate records to establish which part of the package relates to exempt supplies, zero rated supplies (travel to a place outside India sold to foreign citizen) and taxable supplies.

The factors which will impact the Tourism and Hospitality sector after GST comes into picture can be explained in the following chart:



● Let us discuss the above points one by one:  
**Effect of Taxes:** The tourism industry is one of the industries which are levied with multiple taxes. There are mainly three taxes involved:

- By State Government
  - VAT
  - Luxury tax
- By Central Government
  - Service Tax.

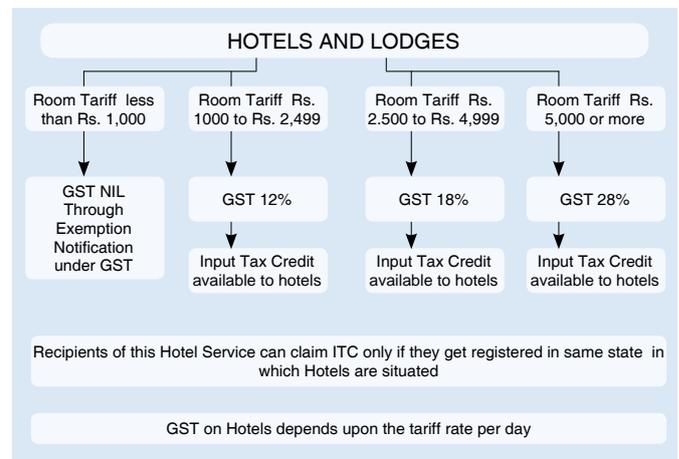
The value of Vat varies from 12% to 14.5% according to state.

● One of the worries of the hotel industry which is an important part of tourism industry is the non-inclusion of electricity and alcohol tax 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 two items.

The luxury tax varies from zero to 12% depending on room type and state whereas the service 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%. Restaurants with ₹ 50 lakhs or below turnover will go under the 5% composition. As per industry figures, the tourism sector employs nearly 37 million people directly and indirectly and generates an annual revenue of about ₹14 lakh crore.

### GST ON HOTELS AND LODGES



● **Impact on electricity and alcohol:** One of the worries of the hotel industry which is an important part of tourism industry is the non-inclusion of electricity and alcohol tax 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 two items.

● **Transportation:** It comprises airline companies, cruise services, railways, car rentals & lots more. A tourist's choice of transport would depend on the travel budget, destination, time, purpose of the tour & 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 @ 5% with no benefit of input tax credit facility.

● **Research & 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.

## TAXABILITY UNDER GST

According to the CGST Law which neither contains the exemptions nor the rates of taxation, it appears that most of the services in relation to Tourism would be subject to levy of GST as the same is to be treated as 'supply'. Since taxable event is supply, it is necessary to understand certain terms like Location of Supplier of Service, Location of Recipient of Service and Place of Supply. Tourism industry supplies bundle of services and hence Composite Supply and Mixed supply also comes into picture.

Consider an example of booking of air tickets which involves cost of the meal to be provided during travel will be a composite supply and tax will be calculated on the principle supply which in this case is transportation through flight.

## HOW TRAVEL & TOURISM INDUSTRY GETS EFFECTED ?

Tourism Industry and travel and tour agents in particular are facing a tough time due to various factors like no commission by the airlines, direct marketing of airlines, higher taxation, poor tourist infrastructure etc. Their major sources of income are listed below:

1. Commission from Airlines, Cruise Companies, Travel Insurance Companies and similar companies.
2. Sale Tour Packages, both inbound and outbound.
3. Travel Related Services like Visa, Passport etc.

One has to understand that an airline or a cruise ticket or the travel insurance policy issued by insurance companies is a contract between the airline/cruise/insurance company and the passenger. The travel agent is only a facilitator who receives commission from the companies. Hence GST on these ticket/policy will only be consumed by the passenger and the agent cannot use them as their input credit. However, the agent has to pay GST on the commission received from the airline/cruise/insurance companies on the reverse basis.

If the agent collects Service Fee as an additional charge from the passenger and show it in the invoice separately, he can add GST on the service fee in the invoice and collect the same from the passenger.

## COMPOSITION SCHEME IN TOURISM SECTOR

Composition scheme can be availed in tourism sector by the supplier who is engaged in providing any service or in any other manner whatsoever, of goods, being food or any other article for human consumption or any drink (other than alcoholic liquor for human consumption).

Person whose aggregate turnover in the preceding financial year did not have 50 lakh rupees and not having any Inter State Supply and was neither a casual taxable person nor a non-resident taxable person, can avail the benefit under composition scheme. Rate of Tax in case of Composition scheme shall not exceed 2.5% of CGST as well as 2.5% of SGST totalling to 5%.

Composition scheme proposed for restaurant, catering business which will exclude many small players out of the tax



credit chain and may result into additional cascading effect in case of B2B transactions. Assessee opting for composition scheme shall not be entitled to take any credit. However, they need to pay Tax under RCM if they have any inward supply from specified person and that shall add on to their cost. Person foregoing negligible amount of input tax credit, can benefit by opting for composition scheme since their total output liability shall reduce to 5% (2.5% CGST+ 2.5% SGST) as against current liability of 9% - 10%.

## DO YOU HAVE TO REGISTER UNDER GST?

Travel agents / Tour Operators have to register for GST if they are providing supply of taxable services in the course of their commercial activities in India and the total (gross) taxable revenue, including of their agents is more than ₹20,00,000.

While they do not have to register if their taxable revenue is ₹20,00,000 or less, they may be able to register voluntarily to claim the input tax credit on services purchased.

The following two persons must register for GST, even if their total taxable revenue is less than ₹20,00,000 threshold:

- Tour & Travel agent who sold tour packages / air-tickets on behalf of other taxable person whether as agent or otherwise.
- Tour Operator selling inter-state tour packages to registered taxable person.
- Non-resident tour & travel agents.

## CANCELLATION FEES

All cancellation fees are subject to GST at 5%. Credit note is allowed to be issued for cancellation of air ticket or tour package and GST must be adjusted accordingly. Any amendment charges are subject to GST at 5% for inbound/outbound tour package and domestic air tickets. Amendment charges for outbound tour package and international air ticket are subject to GST at 5%. Arranging for visa and visa fees; (the service or administrative fees imposed) is subject to GST at 18%.

## GST IMPACT ON THE TRAVEL INDUSTRY

The taxable supplies for the travel industry are as follows:

- (a) Inbound tour packages (domestic tour), whether sold to Indian resident or Foreign resident.
- (b) Outbound tour packages (international tour) sold to Indian

- resident.
- (c) Agency services.
- (d) Passenger Transportation services (Sea, Land and Air Transport).

Some of the related taxable purchases in the Travel Industry which are subject to GST are as follows:-

- (a) Hotel Accommodation;
- (b) Transportation/ hire of vehicles /car hire;
- (c) Tour package;
- (d) Restaurant meals and dining places;
- (e) Tickets for entry to exhibitions, entertainment venues;
- (f) Hospitality (spas and resort);
- (g) Agency commission;
- (h) Booking Fees;
- (i) Tourist Guide;
- (j) Tour Deposit;
- (k) Amendment Charges for Inbound/Outbound Tour Package and Domestic Air Ticket;
- (l) Travel Insurance;
- (m) Visa Service Fees; and
- (n) Other related tourism services.

## TRAVEL INSURANCE

Supply of travel insurance services for an inbound/outbound tour is taxed at applicable rates and the premium charged is subject to GST at 18%. The arranging of travel insurance for inbound or outbound tour is taxed at applicable rates and the commission charged for such a supply is subject to GST at 18%.

## AIR TICKETING SERVICE FEE

- Profit mark-up/service fee charged for domestic flight is subject to GST at 18%
- Profit mark-up/service fee charged for international flight dis-embarking from India, is subject to GST at 18%
- If any service fee charged separately, then it is subject to GST @ 18%.
- Any commission received from airline is subject to GST @ 18%.

## TOUR PACKAGES

Supply of Tour operator's services are taxable at the rate of 5%. No input tax credit will be allowed when the rate of 5% is charged.

When supply is made to a registered person, GST of 5% will be charged depending upon the location of recipient of services i.e. Customer. Taxable invoice will be issued at the Customer's registered address under GST.

When supply is made to an unregistered person, GST will be charged depending upon the location of Tour Operator. Bill of supply will be issued for the services rendered by Tour Operator.

The tour operator has to identify the nature of supply i.e. whether the tour package services are intra-state or inter-state, which in turn depends upon whether the recipient of service is registered or un-registered.

## KEY ISSUES FACING THE TOURISM SECTOR

- High Multitude and Incidence of Taxes on account of

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taxation at multiple levels and absence of seamless input credit flow

- Lot of business in this sector gets generated through online medium. Significant amount of clarity is required in the law to deal with e-commerce players and aggregators
- Lack of Proper Infrastructure in terms of access, connectivity and services and many unorganised players in the industry
- Non-availability of skilled & Semi skilled man power required for the industry to attract foreign tourist as well as promote local tourism specially Eco Tourism & Rural Tourism which lacks professional approach towards service and customer satisfaction
- Lack of Marketing, Branding & Promotion efforts for the rural, cultural and Eco friendly remote locations and their conservations.

## CONCLUSION

GST has been one of the most awaited tax reform 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 demonetisation 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 per cent. India cannot afford to have these kind of complex and high GST. A lower tax rate for budget hotels sector will ensure that the industry's quality upgrade continues while delivering standardized accommodation to millions of middle-class-travellers. 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 and beverages operations could be the biggest beneficiaries of GST within the hospitality sector. Food and beverages bills have multiple components and can inflate the bills by 30-35%. A single-slab tax will benefit consumers and should lead to savings of 10-15% on the overall bill.