

# An Evaluative Study of the Impact of GST Enforcement on India's Share of Foreign Tourist Arrival

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**Abstract:** India is known for its various natural tourist attractions and extraordinary immortal humanitarian heritage which enable it to effectively contribute to the humanistic civilization, but unfortunately India's share of foreign tourist arrival is still insignificant, apparently, for many reasons such as insufficient infrastructures, insufficient ancillary tourist services and amenities and lack of promotional efforts for tourism abroad. The current study mainly aimed at contributing with brief theoretical construct about tourism industry in India and the enforcement of GST in tourism industry in India, evaluating the positive and negative impacts of the enforcement of GST on India's share of foreign tourist arrival and at offering recommendations to increase India's share of foreign tourist arrival through GST enforcement. Since the current study is theoretical and descriptive in its nature, the secondary data collected from several sources such as journals, books, websites etc. to review and evaluate the impact of GST on India's share of foreign tourist arrival which is related to FEEs (Foreign Exchange Earnings) as one of the principal drivers of the national economy. The authors concluded that GST enforcement in tourism industry has both positive and negative impacts on India's share of foreign tourist arrival. Some of the positive impacts mainly include: the relatively reduction in costs of tourist products and services resulting from the removal of the cascading effects of tax on tax, providing the tourists/ tax payers with the transparency that makes them aware of the actual amount of tax that they have to pay and hence enhancing the trust of tourists in the tourist businesses which is inevitable in creating customer loyalty, and the encouragement to the economic travel and tourism through granting tourists/travelers good reduction in the levied tax in economic class tourist businesses/services. Whereas the negative impacts can be summarized as: The aforementioned transparency enables tourists to accurately compare the GST levied in India to that levied in some competitive tourist destinations in the region and India, because of the higher tax rate, may be replaced by other tourist destinations. The high rates of tax on the business class hotels, restaurants and air travels which range from 12% to 18%, more likely, have negative impacts on India's share of foreign tourist arrival and particularly of such important segment of the market that represents a good source of FEEs. The enforcement of GST with its high rates has an impact on cost and prices of the tourist services in India and hence on tourists' loyalty which might be negatively reflected on India's share of foreign tourist arrival. The authors, accordingly, offered recommendations to increase India's share of foreign tourist arrival through GST enforcement.

**Keywords:** Goods and Services Tax, Tourism Industry, hospitality, Inbound Tourists, Foreign Exchange Earnings, Tourist loyalty

## 1. Introduction

It is unreasonable that India, which has unique and matchless tourist attractions, has only a small share of the foreign tourist arrival at the regional level especially when we know that the levied GST rate in India observed the highest in the region. The enforcement of GST in tourism sector which is high in India will lead to higher prices of tourism services and hence will lead to the reluctance of the foreign tourists to visit India which might be replaced by the alternative tourist destinations in the region. Thus, the enforcement of GST in India will represent a new challenge for tourism industry in India which actually suffer from lack of infrastructure and tourist amenities and insufficient effort to promote tourism abroad.

The significance of the current paper is demonstrated from its approach to a new problem that has been recently added to the problems and challenges facing tourism industry in India is the problem of the high rate of levied GST in tourism sector (12-18%) compared to the tourist countries in the region. Such high rate of GST will be an additional burden on India's tourism competitiveness and will negatively impact on loyalty of the foreign tourists who are a lucrative source of the national income. Moreover, the significance of the current paper is derived from the

recommendations provided by the long experience of the authors to solve the problem of the study.

The approach of the study is descriptive in its nature and data is collected from various secondary sources such as books, journals, websites and the background of the researcher. The enforcement of GST is still in its first phases in India as it took just five years, so the results derived from the empirical statistical study might not be accurate, it will be vulnerable for criticism.

## 2. Objectives of the study

- To contribute with brief theoretical construct about tourism industry in India and the enforcement of GST in tourism industry in India.
- To evaluate the positive and negative impacts of the enforcement of GST on India's share of foreign tourist arrival.
- To offer recommendations to increase India's share of foreign tourist arrival through GST enforcement.

## 3. Review of Literatures

Varalakshmi, P May (2021) pinpointed that customers and restaurants owners can celebrate as they are pleased about

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the reduction in the amount they have to pay. But the hotels with rooms that cost above 7500 rupees per a night will feel pain.

**Sunny S et.al (2020)** concluded that hotels under slab rate of 12% will get benefits from the implementation of GST but hotels with 18-28% rate of tax will get adverse effect of GST. They further concluded that the GST enforcement will strengthen the revenue of the government as it increase the consumption of hotel consumers which increase the employment opportunities of hotel sector.

**Acharjee, M. (2018)** stated that GST will lead to cost optimization and ease of transactions but the residence in good hotels will be costlier and in a luxurious hotels will be more costly as GST levied from luxurious hotels with room tariff of more than 7500 rupees per a night is high rate.

**Renuka R (2018).** Stated that tourism industry was immensely suffering from multiple taxes, and that approximately all hospitality sector professionals were looking forward some reliefs from GST implementation but the results were adverse impacts on the industry. Further emphasized that the negative impacts will be on the short run and there will be a positive change on the long run.

**Gupta et.al November (2017)** stated that association of hotels and restaurants of north India was looking forward a low rate of GST at 5% because the low rate of tax will enable India to attract more foreign tourists and will enable Indian businesses to compete the global chains. But the council of GST set it at rate of 18%.Gupta et.al. Further discussed that high rate of GST will hinder the growth and development of tourism in India. They emphasized that there is no big change in GST in regard to tour packages (4.5%-5%) and in international air tickets (1.5%-1.8%) but the five star restaurant incur a GST rate of 28%. (The rate of tax was changed as the new update of 5July 2019 has made it reduced from 28% to 18% but it is still somewhat high).

Some studies focused on the impact of GST on food and beverage operations and concluded that due to the several component of F&B bills, the single slab tax will enable consumers to save 10-15% of the total cost of the bill. It further suggested that liquor must be included in GST, whereas other studies discussed that the reduced costs resulting from the implementation of GST, will attract more foreign tourists to visit India and expected that there will be flexibility in business transactions. And some other studies just Compared the GST rate levied in tourism in India with GST levied in some countries in the region and emphasized that tourists will skip India and visit other tourist countries in the region.

#### Rationale of the study

It is unreasonable that India, which has unique and matchless tourist attractions, has only a small share of the foreign tourist arrival at the regional level especially when we know that the levied GST rate in India observed the highest in the region. The enforcement of GST in tourism sector which is high in India will lead to higher prices of tourism services and hence will lead to the reluctance of the foreign tourists to visit India which might be replaced by the

alternative tourist destinations in the region. Thus, the enforcement of GST in India will represent a new challenge for tourism industry in India which actually suffer from lack of infrastructure and tourist amenities and insufficient effort to promote tourism abroad.

#### 4. Discussion

India has recently become one of the most promising tourist destination in the world, due to its diverse climate and diverse cultural and civilizational heritage that India has been contributing to immortal humanitarian heritage at the global level. India offers the tourists the pleasure of customer experience with its diverse and unique tourist attractions compared to the homogeneous tourist attractions in the competing tourist destinations in the region, what made India one of the most growth of tourism over the past two decades. Government of India has used several approaches to promote tourism and to encourage foreign tourists to visit India, and to achieve this goal, it simplified policies and procedures of visa issuing to several nationalities of the world through electronic issuing of visa online and through offering visa on the arrival of tourists at airports.

Consequently, and due to the unique civilizational heritage of India, it is projected that the few next years will witness more progress and development of tourism in India.

Besides the extraordinary bounteous cultural heritage of India including architectural legacy, traditions and habits of multination on one land and diverse cultural attractions that enabled India to be one of the best contributors to the world humanistic heritage, India is distinguished with various natural landscapes and all types of natural tourist resources that have offered the best platform for tourism industry with approximately all conventional and new tourism paradigms.

Tourism plays a vital role in the national economy of India as a source for the foreign exchange earnings which amounted to 3.46 US billion Dollar in 2000 and with steady progress reached to 22.92 US billion Dollar ([www.statista.com](http://www.statista.com)) which accounts for one-third of the total foreign exchange earnings of India.

India's share offoreign tourist arrival in 2016 amounted to 9 million tourists with a noticeable growth of 9.7% over 2015 and this growth rate is higher than the world growth rate that amounted to only 3.9 in the same year (WTTC, 2017), but India is still placed in the 40<sup>th</sup> rank on the world level. On the other hand, the money spent by foreign tourists in India represents only 12% of the total tourism revenue which means that 88% of the tourism income is generated from the domestic tourism. Thus, India has to improve the services and offer all facilities that attract and encourage foreign tourists to visit India and one of such facilities is adopting exemptions in the levied GST in tourism sector and principally for the inbound tourism.

Despite the positive and negative impact of the enforcement of GST on tourism sector in India noted in the abstract, it makes sense to discuss the impact of GST on tourism sector in India with regard to consumers/tourists not in terms of the

central and state government of India because there is no doubt that government will get benefits in form of high revenue that can be allocated to development programs in the country especially tourism development.

Thus, the impact of GST on tourism must be taken in terms of the consumers/ tourists to be served and satisfied, because the tourists will compare between India as a tourist destination and the competing tourist destinations in the region and will definitely choose the alternative tourist destinations in the region because of the high GST in India which reach 18% in some cases, more particularly if we know that the demand for tourism and travel is demand for luxuries. The levied tax in India before GST enforcement was 20, 5%, 6% for service tax and 14, 5 % for value added tax on hotels and restaurants that provide food and beverages services, but after GST enforcement the government of India levies 18% of tax which saves about 3% of the tax for tourists' pockets. In case of above average and luxurious hotels, it is going to be costlier than before as the tax was doubled from 9% to 18% in case of above average hotels and reached to 18% in case of luxurious hotels.

Although the growth of India's share of foreign tourist arrivals continued to increase in the years 2017-2019 –taking into account that GST was implemented in 1st July 2017- this doesn't cancel the fact that the increase in the prices of tourism services leads to a decrease in demand for them, assuming that the other factors remain constant. This steady growth in India's share of foreign tourist arrivals may be due to the success of the Indian government in marketing tourism abroad and convincing tourist demand that India possesses elements of tourist attractions that distinguish it from competing tourist destination in the region.

In other words, if the goods and services tax imposed on tourism and hotels establishments in India were reduced, this would lead to an increase in India's share of foreign tourist arrivals more without any doubt. However due to the high GST enforced on first class tourism establishments and the low tax enforced on below average level tourism establishments, the impact of GST enforcement on India share of foreign tourist arrivals was balanced impact.

Year	FTAs in India (in Million)	Percentage change over the previous year
2015	8.03	4.5
2016	8.80	9.7
2017	10.04	14.7
2018	10.56	5.2
2019	10.93	3.5
2020	2.74	-74.9

Source:(www.statista.com). Table no. 1

As indicated in the table no. 1, there is a dramatic decline in India share of foreign tourist arrivals in 2020, which some tourism experts in India attribute to the effects of coronavirus pandemic. It is also evident that the percentage change over the previous year was low for the years 2018 and 2019 compared to the percentage change for the years 15, 16, 17 what indicates the possibility of a negative impact of the enforcement of GST on India share of foreign tourist arrivals.

Once again, I return to stress that high cost of Indian tourist services resulting from the high rate of GST enforced on tourist facilities, will lead to tourist making a comparison between India as a tourist destination and competing tourist destinations in the region, and they will choose other tourist destinations with lower costs. On the contrary, a lower GST in India will reduce the costs of tourism services and this will lead to an increase in the confidence of tourists in the Indian tourism product and will bring satisfaction to the tourists and this satisfaction will lead to the creation of customers loyalty (tourists to be served) and this loyalty will be reflected through the frequency of visit and length of stay. Not only that, but tourists will turn into free promoters for India as an exceptional tourist destination when the tourists convey to their families and friends in the countries exporting tourists to India everything beautiful about India and its tourism services, which will lead to an increase in India's share of foreign tourists arrivals, especially if the tax enforced on tourism facilities with first class decreased which reaches 18% after the update of 5 July 2019 because such a decrease will lead to an increase in India's share of businessmen tourists who play a crucial role in foreign exchange earnings FEEs.

Table 2: GST rates for Hotels according to room tariff.

Tariff per night	GST rate
INR 1000 or less	No Tax
INR 1000-2499.99	12%
INR 2500-7499.99	18%
INR 7500 and above	28%

As it is indicated in the table n. 2 the GST levied from tourism and hotel facilities that its tariff is 7500 or above is so high 28% but this was changed when the new act of **5 July, 2019** comes into effect. According to the new act only 12% rate levied from hotels room which its tariffs ranging between 1000 INR and 7500 INR and 18% GST rate levied from hotel rooms which its tariffs is 7500 and above. This reduction is a good step that will attract more foreign tourists to visit India but it is still somewhat high rate. The government of India is required to grant tourism sector more reduction the levied GST and more particularly first class facilities in order to encourage businessmen tourism which play a crucial role in foreign exchange earnings FEEs.

## 5. Conclusion

India is distinguished by extraordinary profound natural and manmade tourist attractions that provide the suitable platform for making India one of the largest tourist destinations in the world.

The annual growth rate of India's share of foreign tourist arrival as per 2015-2016 was 9.7% which is much higher than the world rate (3.9%), but India is still placed in the 40th rank on the world level.

Moreover, the money spent by foreign tourists in India represents only 12% of the total tourism revenue which means that 88% of the tourism income is generated from the domestic tourism. Thus, the high average rate of the levied GST(12-18%) represents an ultra-burden on travelers and

tourists who might change their destinations to other countries in the region where the average rate of GST ranges from 5-10% only such as China, Singapore, Malaysia, Thailand, Indonesia etc.

The high rates of tax on the business class travel and tourism (12% to 18%), more likely, have negative impacts on inbound business tourism, and overall the negative impact on tourists' loyalty.

Nevertheless, the positive impacts are: removal of the cascading effects of tax on tax, providing the tourists/ tax payers with the transparency that makes them aware of the actual amount of tax that they have to pay and hence enhancing the trust of tourists in the tourist businesses which is inevitable in creating customer loyalty, and the encouragement to the economic travel and tourism through granting tourists/travelers good reduction in the levied tax in economic class tourist businesses/services.

According to the new act that came into effect in 5 July 2019 there is a good reduction in the levied GST will attract more foreign tourists to visit India but it is still somewhat high rate (12-18%). The government of India is required to grant tourism sector more reduction the levied GST and more particularly first class facilities in order to encourage businessmen tourism which play a crucial role in foreign exchange earnings FEEs.

## 6. Suggestions

- 1) The government should grant tourism sector some a reduction in the levied GST from tourism industry.
- 2) There should be a significant reduction in the GST on inbound travelers and tourists because such procedure will enhance India's share of FTAs and FEEs at least on the long term.
- 3) A significant reduction in GST should also be granted to business tourists and travelers as they represent a vital source for foreign exchange earnings.
- 4) A long with the enforcement of GST, there should be efficient promotional effort abroad to highlight the benefits of the enforcements of GST and to convince foreign tourists that India has unique tourist attractions that are unavailable elsewhere.
- 5) Improving the tourist services of India to the extent that enables it to compete that are exist in the tourist destination in the region.

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